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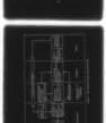
AIR FORCE INST OF TECH WRIGHT-PATTERSON AFB OHIO SCH--ETC F/G 5/1  
AN ANALYSIS OF INITIAL EFFORTS TO IMPLEMENT ZERO-BASE BUDGETING--ETC(U)  
SEP 77 E J KLEINER

AFIT/GSM/SM/77S-8

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AN ANALYSIS OF INITIAL EFFORTS TO  
IMPLEMENT ZERO-BASE BUDGETING IN THE  
DEPARTMENT OF THE AIR FORCE

Thesis

AFIT/GSM/SM/77S-8

Eric J. Kleiner  
Captain USAF

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## PREFACE

President Carter has directed that zero-base budgeting (ZBB) is to be implemented in the executive branch of the federal government for the preparation of the FY 79 budget. This is proposed as a relatively new concept and Air Force managers, especially at the operating level, are quite unfamiliar with it. The basic purpose of this study is to examine the characteristics of ZBB while determining the impact that the concept is likely to have within the Department of Defense.

During the course of this study I have been impressed by the willingness of people to help. People within DOD from the base level up to the Pentagon as well as other federal departments and state governments have been very receptive to questions and have furnished documents and personal insights that have been of considerable value. To all of these people I am deeply indebted.

I especially wish to express my sincere appreciation to Lt Col William C. Letzkus, my thesis advisor. His special knowledge and identification of sources of information have been valuable assets throughout this study. His careful editing and attention to detail have contributed significantly to this study.

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ABSTRACT

The budgeting system currently in use within the Department of Defense has evolved from the Planning-Programming-Budgeting (PPB) System that was first introduced in the early 1960's. In 1965 this PPB system was extended to all federal agencies, but it did not live up to its expectations and as of 1971, it is no longer required throughout the federal government.

One of the major drawbacks in many budgeting systems is their primary focus on the increases from year to year in the amounts in various accounting categories, with little systematic regard for program priorities and results. A relatively new approach to planning and budgeting -- zero-base budgeting -- is intended to overcome this drawback. Basically, zero-base budgeting implies constructing a budget without any reference to what has gone before, based on a fundamental reappraisal of purpose, methods, and resources.

Research has shown that the only real differences between ZBB and DOD's PPB are the annual reevaluation of all programs and the rank-ordering of these programs. Research has further shown that ZBB has little positive to add to the DOD budget process. The impact of ZBB implementation within DOD should prove to be minimal for FY 79, but it may prove to be more significant in succeeding years.

## LIST OF ACRONYMS

AF	Air Force
AFSC	Air Force Systems Command
ASD	Aeronautical Systems Division
BPAC	Budget/Program Activity Code
DOD	Department of Defense
DPPGM	Defense Policy & Planning Guidance Memorandum
FY	Fiscal Year
FYDP	Five Year Defense Program
GAO	Government Accounting Office
HQ	Headquarters
JCS	Joint Chiefs of Staff
JFM	Joint Force Memorandum
JSOP I	Joint Strategic Objectives Plan - Strategy and Force Planning
JSOP II	Joint Strategic Objectives Plan - Analysis and Force Tabulations
MFP	Major Force Program
O&M	Operations and Maintenance
OMB	Office of Management and Budget
OSD	Office of Secretary of Defense
PBD	Program Budget Decision
PDM	Program Decision Memorandum
PE	Program Element
POM	Program Objective Memorandum
PPB	Planning-Programming-Budgeting

PPGM	Planning and Programming Guidance Memorandum
RDT&E	Research, Development, Test, and Evaluation
SECDEF	Secretary of Defense
SPO	System Program Office
USAF	United States Air Force
ZBB	Zero-Base Budgeting

# AN ANALYSIS OF INITIAL EFFORTS TO IMPLEMENT ZERO-BASE BUDGETING IN THE DEPARTMENT OF THE AIR FORCE

## I. INTRODUCTION

### Functions of Budgeting

All budgets are viewed as having three primary functions: control, management and planning (Ref 47:244). Control refers to the process of setting forth certain conditions and limitations in the budget to ensure compliance with imposed spending restrictions. The management function emphasizes a process by which managers ensure that resources are utilized efficiently in the accomplishment of an organization's objectives. The planning function of budgeting involves the determination of objectives, the evaluation of alternative courses of action, and the authorization of certain programs. Every budget includes some aspect of all three of these functions, but one of them will usually tend to dominate (Ref 47:244).

### Evolution of Budgeting Systems

Through the years, budget reform has attempted to concentrate on different functions of the budget. Most of the early budgeting systems stressed the control function, with the focus on accountants instead of managers. Then, in accordance with the recommendations of the Hoover commission in 1949, performance budgeting became the vogue, with emphasis on the management function. Next was program budgeting, which came to prominence in the mid sixties. This was an attempt to emphasize the planning function (Ref 50).



During the early 1960's a Planning-Programming-Budgeting (PPB) System was developed for the Department of Defense (DOD). This was an attempt to introduce a program structure and a multi-year planning process into DOD budgeting instead of the old performance budgeting system. In 1965 President Johnson issued a directive requiring PPB by all federal agencies (Ref 40:140). Although PPB is still used within DOD, PPB did not live up to its expectations, and as of 1971 it is no longer required throughout the federal government (Ref 45:146).

One of the major drawbacks in many budgeting systems is their primary focus on the increases from year to year in the amounts in various accounting categories, with little systematic regard for program priorities and results. A relatively new approach to planning and budgeting -- zero-base budgeting -- aims to overcome this drawback. Basically, zero-base budgeting (ZBB) implies constructing a budget without any reference to what has gone before, based on a fundamental reappraisal of purpose, methods, and resources (Ref 53:1). This is an attempt to change the focus from an incremental process to a thorough reexamination of the budget base. As such, zero-base budgeting is fundamentally a planning process.

#### The Need for ZBB

The concept of zero-base budgeting is not new, and the failure to consider the budget as a whole has been under attack for years. As far back as 1924 E. Hilton Young wrote:

It must be a temptation to one drawing up an estimate to save himself trouble by taking last year's estimate for granted, adding something to any item for which an increased expenditure is foreseen. Nothing could be easier, or more

wasteful and extravagant. It is in that way obsolete expenditure is enabled to make its appearance year after year long after reason for it has ceased to be (Ref 8:172).

This same view has since been echoed by numerous writers. However, between 1966 and 1976 the funds expended annually by the federal government without any current review increased from \$55 billion to more than \$165 billion. During this same period "uncontrollable" costs grew from 59 percent of the federal budget (\$93 billion) to 77 percent of the budget (\$303 billion) (Ref 43:40).

Graeme M. Taylor addresses some of the specific problems now faced by the federal government as follows:

Budget justifications focus almost exclusively on increments . . . the additional positions and dollars requested above the "adjusted base." Neither the President nor Congress are routinely provided the opportunity of examining whether objectives should be changed, or whether the same objectives could be attained more economically, or what would be the consequences of funding a given program at varying levels. Interagency trade-off opportunities, within the same general program area, are difficult to examine without special analyses. The link between costs and services provided is hard to discern. Often, cuts are imposed without any explicit recognition of which services will be reduced by what amounts. Agencies are frequently expected to absorb cuts and still, somehow, maintain the present level of operations (Ref 53).

Traditionally, a manager takes the past year's budget as a starting point and adds to it the additional projects, programs, and personnel that he wants. Then, he concentrates on justifying the incremental increase only. The problem with this method is that it assumes that the projects and ongoing activities making up the past year's budget: (1) are essential to the mission of the organization and must be continued during the budget year, (2) are being performed in an optimal, cost-efficient manner,

and (3) are projected to be cost-effective in the budget year (Ref 3:5). Inherent in this incremental process is the assumption that the current "base" is made up of only necessary, cost-efficient activities that should be continued through the budget year. If one can accept this assumption, it is possible to concentrate on an analysis of just the incremental increase (Ref 3:8). However, if it turns out the assumption was wrong, as is highly likely, then the simplistic extrapolation has generated a grossly incorrect, inflated budget (Ref 13:3).

It is now widely recognized that many of our existing programs simply have outlived their usefulness, work at cross-purposes with recently enacted programs, or are merely duplicative of other activities. A systematic review process which can result in the termination of such programs is needed (Ref 61:54). Zero-base budgeting is seen as an answer to this need.

With zero-base budgeting the manager starts with the assumption that he has zero dollars to work with. From that point on he views all activities and priorities afresh; and, based on a cost/benefit analysis, presents a new set of allocations for the upcoming budget year. Basically, this amounts to analyzing and justifying each project and activity, current as well as new, each year and then ranking it against all other alternatives. Zero-base budgeting puts the emphasis on choice. Managers must consider many alternative ways of providing service as well as alternative funding levels (Ref 31).

It must be noted that zero-base budgeting is a management concept. It is not a fixed procedure or set of forms to be applied uniformly from one organization to the next. The mechanics and management applications

may differ significantly from one organization to another. The process must be adapted to meet the specific needs of each user (Ref 37:2).

#### Evolution of ZBB

A variation of zero-base budgeting was tested by the United States Department of Agriculture (USDA) for its fiscal year (FY) 1964 budget, but it is generally considered to have been a failure. As it is practiced today, zero-base budgeting was developed by Peter A. Pyhrr in 1969, while he was control administrator for Texas Instruments, Inc. Pyhrr's process was first adopted in government by Governor Jimmy Carter of Georgia for the preparation of Georgia's fiscal 1973 budget. Some 300 businesses and a dozen state governments are now utilizing this concept (Ref 11:24).

It now appears that zero-base budgeting will be adopted in the federal government, sponsored by both the President and Congress. There have been nearly three dozen bills introduced in Congress that call for some form of zero-base budgeting for the entire federal government (Ref 62:79). The most promising of these bills is the Government Economy and Spending Reform Act of 1976 (S.2925), which was introduced by Senator Muskie and is backed by more than half of the Senate (Ref 28:1) This bill calls for the automatic termination of all agencies and programs every fifth year. Then, before an agency or program can be renewed, every one of its spending functions must undergo a zero-base review.

In addition to congressional interest with zero-base budgeting, President Carter has issued a memorandum for Bert Lance, Director of the Office of Management and Budget (OMB), to review the federal budget



process for the preparation, analysis, and justification of budget estimates, and to revise those procedures to incorporate the appropriate techniques of the zero-base budgeting concept. President Carter has stated that the FY 79 budget is to be prepared using zero-base budgeting (Ref 19).

Some government agencies have already begun experimenting with zero-base budgeting. Among these agencies are the Department of Housing and Urban Development, the National Aeronautics and Space Administration, the Consumer Product Safety Commission, the Federal Reserve Board, and the Environmental Protection Agency (Ref 58:162).

#### Objectives of This Thesis

As already stated, President Carter has directed that zero-base budgeting is to be used for the preparation of the FY 79 budget that he will submit to Congress. This requirement has been anticipated by Air Force managers, and there is considerable interest in learning as much as possible about zero-base budgeting. The problem presently being faced is the determination of what actions should be taken to provide for the successful implementation of zero-base budgeting. However, Air Force organizations at the operating level, (e.g., System Program Offices (SPO's)) have received no definitive requirement to implement ZBB.

The primary objective of this study is to acquaint the reader with the zero-base budgeting concept and also to identify potential problems and/or problem areas which may be encountered during the implementation of ZBB. Some of the background and relevant factors which have a bearing on the problems will be discussed. The study was designed to be an aid for Air Force managers who must deal with zero-base budgeting.

### Scope, Limitation, and Assumption

In order to limit the scope of the research effort, the study initially focused on the implementation of zero-base budgeting within the Deputate for Aeronautical Equipment (AE) at Wright-Patterson Air Force Base (AFB), Ohio. However, during the course of the research, it soon became apparent that, because of upper-level decisions, the impact on system program offices will be minimal. As a result, the direction of this study was changed so as to permit generalization to all Air Force organizations. While the study is, however, emphasis is placed on the Air Force Systems Command program office.

The most serious limitation to this study is the fact that it was not possible to personally visit any organizations now utilizing zero-base budgeting. Therefore, it was necessary to rely quite heavily on published and unpublished documents. It must be assumed that the literature paints a true and accurate picture of zero-base budgeting. In addition, it must also be assumed that other public and private experience with zero-base budgeting will prove relevant to ZBB in the federal government.

### Conduct of Research

Initial research efforts consisted of a thorough search of zero-base budgeting literature in order to learn its background and essential elements. A record was maintained of all organizations, both public and private, mentioned in the literature as having any dealings with zero-base budgeting. Letters requesting information were then sent to as many as possible of these organizations. Numerous replies were received.

On 29 March 1977, the author attended a seminar on zero-base budgeting at the Eugene W. Kettering Center in Dayton, Ohio. This seminar was designed specifically for local government officials and social agencies.

It was also necessary to learn as much as possible about the current budgeting process within the Air Force in general and Air Force Systems Command (AFSC) in particular. Applicable regulations, manuals, memorandums, and letters were studied. In addition, informal interviews were conducted with budget experts within the Deputate for Aeronautical Equipment, Aeronautical Systems Division, and Air Force Headquarters. These conversations served a dual purpose by acquainting the author with the current budgeting process and also by providing any ideas these experts had about implementing zero-base budgeting.

Once all the data were gathered, it was decided to concentrate the study on those aspects of the zero-base budgeting (ZBB) concept that have received the most attention in published articles as well as those aspects that seem most relevant to Air Force managers.

#### Organization of This Thesis

This thesis is divided into six chapters. Chapter I acts as the introduction, providing the purpose and background of this study as well as the approach utilized in reaching the objectives of the author. Chapter II addresses the present budget system within the Department of Defense. Chapter III presents the theory of zero-base budgeting. Included in this chapter are the essentials of zero-base budgeting, the zero base process, and ZBB design considerations. Chapter IV is a

discussion of zero-base budgeting in terms of benefits and problems to be expected, with a look at two cases of implementation in government.

Chapter V is a discussion of official federal government and Air Force actions taken to implement zero-base budgeting. Chapter VI presents an analysis of ZBB implementation and recommendations to overcome some identified problems.



## II. THE CURRENT DOD BUDGET SYSTEM

### Introduction

The budgeting system currently in use within the Department of Defense has evolved from the Planning-Programming-Budgeting System that was first introduced in the early 1960's. This PPB System was extended to all federal agencies in 1965, but the requirement that all federal departments and agencies use PPB was revoked in 1971.

When President Johnson directed all federal agencies to adopt PPB, five reasons were given for its adoption:

- (1) To identify national goals with greater precision and determine the priority among goals.
- (2) To develop and analyze alternative means of achieving the goals.
- (3) To project long-term systems costs and relate them to the benefits of each program.
- (4) To specify plans for several years ahead that will achieve the stated objectives.
- (5) To strengthen control over programs and budgets through improved measurement and analysis of program performance in relation to cost (Ref 40:142).

Before discussing a proposed change like zero-base budgeting, it is necessary to have at least a fundamental understanding of the present system that must be changed or modified. To this end, this chapter will address the current budgeting process within Congress, the Department of Defense, and Air Force Systems Command.

### Characteristics of PPB

Any Planning-Programming-Budgeting system has the following characteristics:

- (1) Identification and examination of goals and objectives in each major area of governmental activity.
- (2) Analysis of the outputs of a given program in terms of its objectives.
- (3) Measurement of total program costs for several years ahead rather than for just one year.
- (4) Formulation of objectives and programs extending beyond the annual budget submission.
- (5) Analysis of alternatives to find the most cost-effective means of achieving the desired objective. (Ref 48:19-23)

Planning-Programming-Budgeting was introduced within DOD amidst a storm of controversy. Its opponents charged that it was really nothing new and distinctive or that it would have no real effect on governmental decision making (Ref 47:243). Planning-Programming-Budgeting promised a great deal that many people claim it has failed to deliver (Ref 45:146-149). In theory, plans and programs should drive the budget; but, in practice, it has been found that the budget drives plans and programs (Ref 14:41).

### Program Structure

All programs of the military services are classified into 10 major DOD programs. Each of these 10 major programs contains different types of services, systems, and activities, but each has a common mission or purpose. This program structure serves as a bridge between military planning and budgeting. The 10 major DOD programs are:

- (1) Strategic forces
- (2) General purpose forces
- (3) Intelligence and communications
- (4) Airlift/sealift
- (5) Guard and reserve forces
- (6) Research and development
- (7) Central supply and maintenance
- (8) Training, medical, and other general personnel activities
- (9) Administration and associated activities
- (10) Support of other nations

The 10 major programs are broken down further into program elements.

A program element may be defined as:

A description of a mission by the identification of the organizational entities and resources needed to perform the assigned mission. Resources consist of forces, manpower, material quantities, and costs, as applicable. The program element is the basic building block of the FYDP (Five Year Defense Program). (Ref 55:106)

Major programs are aggregations of program elements. There are now approximately 1300 different program elements active within DOD.

All DOD major programs are compiled into what is known as the Five Year Defense Program (FYDP). The FYDP can be described as:

The official program which summarizes the secretary of defense approved plans and programs for the Department of Defense. The FYDP is also represented by a computer data base which is updated regularly to reflect decisions. (Ref 56:3)

The FYDP is a five year projection of program costs and an eight year projection of required forces. There is nothing legally binding about the FYDP on either the President or the Secretary of Defense. In the words of

Alan C. Enthoven, former Assistant Secretary of Defense (Systems Analysis),

You might say it (the FYDP) is an official set of assumptions about the forces we currently plan to request authorization for in the future, assumptions from which the financial planners can derive the budget requests required to support forces. (Ref 54:225)

#### Appropriation Structure

PPB has not replaced the traditional appropriation structure. On the contrary, PPB has resulted in a parallel and interacting process in which decisions are based on joint consideration of program and appropriation structures and requirements. William Letzkus states that, "Two budget and accounting structures and systems are required - one for appropriation (fiscal) requirements, the other for program (PPB) requirements. (Ref 29:21-22)

Charles J. Hitch describes four benefits which derive from this dual structure. First, the appropriation structure represents the form in which DOD (and presumably other agencies) actually manages its resources. Second, the appropriation structure provides needed flexibility for adjustments that inevitably occur during the budget year. Third, a program structure would be less amenable to change than the appropriate structure, yet would require greater flexibility. Finally, Congress prefers the appropriation structure (Ref 23:29-31).

The appropriation structure is made up of a number of major categories. For active Air Force organizations the most important of these are:



Procurement	
Aircraft	3010
Missiles	3020
Other	3080
Construction	3300
Operation and Maintenance (O&M)	3400
Military Personnel	3500
Research, Development, Test and Evaluation (RDT&E)	3600

Historically, Congress funds by categories (RDT&E, Procurement, O&M, etc.). Since the life cycle of all Air Force systems crosses appropriation categories, more than one appropriation is required to support an entire program.

Congress is concerned with exercising line item control over certain elements of the DOD budget. Therefore, the RDT&E and procurement categories of the appropriation structure are broken down further into the budget/program activity code (BPAC), which is a code set up to identify a significant segment of Air Force operations or programs.

#### Reprogramming

The previous discussion is not intended to imply that the budget is inflexible once Congress has appropriated the funds. When a shift of emphasis in Air Force activities is required for any reason, the budget is subject to revision. It is possible to fund high priority requirements at the expense of lower priority items through a process known as reprogramming. Basically, a reprogramming is a shift of available funds from one item to another. This shift must be accomplished within the total of the applicable appropriation or apportionment (if the latter is less). There are stringent restrictions on reprogramming, but the process does allow

for some flexibility. It should be noted that without prior approval it is not permissible to reprogram between weapon systems or between BPAC. If reprogramming is not an adequate answer, it is also possible for the President to request a supplemental appropriation or a budget amendment.

#### Authorizations

It is important to note that some statute or legal authorization must exist before funds can be appropriated for the specific agency or program involved. Some federal activities are sanctioned by the U.S. Constitution and do not require legislation specifically authorizing them. Some activities are authorized by statutes already on the books. Still others must be authorized at specific intervals. Authorization can be granted for anywhere from one year to an indefinite period of time. Thus, authorization is the first step toward establishment of the nature and amount of federal expenditures (Ref 57:26).

As far as the Department of Defense is concerned, the operations of the military establishment are sanctioned by the Constitution and do not require any general authorizing legislation. However, some areas of defense spending do require annual authorizations. Among these annual authorizations for DOD are defense procurement, RDT&E, construction, and military and civilian personnel end strengths.

These authorizations are the responsibility of the substantive committees of the two Houses of Congress. For example, the creation of a new defense program would require the progression of a bill through the House and Senate Armed Services Committees, votes in the two Houses of Congress, then possibly to a conference committee, and eventually a final vote in each house. In most cases this review would be based upon a review of program and management considerations (Ref 55:49).

In recent years it has become common for authorizing legislation to specify dollar limits on subsequent appropriations. If a specific dollar amount is authorized for appropriation, this amount usually represents the maximum which is considered justifiable in order to achieve the benefits anticipated from the legislation (Ref 55:49-50). During this process there is seldom any concern expressed for balancing one program against another. Cost considerations are relegated to secondary importance as the committees are primarily concerned with advancing the particular program (Ref 57:28). It is during the appropriation process that competing claims for resources (dollars) are considered, and it is then that the allocation of dollars takes place.

Murray L. Weidenbaum stresses the importance of the authorization process when he states:

In any budgetary control efforts, consideration must be given to the increment of basic authorizing legislation which is proposed each year -- the enactment of new substantive legislation, the extension of expiring legislation and the modification or repeal of existing statutes-- for here is the birth stage, and rebirth and growth stages, of a substantial proportion of federal spending (Ref 57:27).

#### The DOD Budget Cycle

In keeping with legislative requirement, the President submits his annual budget request to Congress each January. It is around this date that the Planning-Programming-Budgeting System must function. Although the President's budget submission is annual, the development of that budget covers 21 months. Thus, there can be two budgets in different stages of development at the same time.

Although PPB is an integrated system, each budget goes through the separate functions of planning, programming and budgeting. The following discussion will cover the budget cycle in terms of these discrete functions. The budget cycle to be discussed is depicted in Figure 1. Although the steps in this process will be covered in sequential order, it should be noted that the process covers more than one year. In order to keep clear the relevant year for each step, the reader may find it helpful to refer to Figure 1 during the discussion.

### Planning

The planning function begins with the issuance in early May of the Joint Strategic Objective Plan (JSOP), Volume I. The JSOP is defined as:

A document prepared annually which provides the advice of the Joint Chiefs of Staff to the President and the Secretary of Defense on the military strategy and force objectives for attaining the national security objectives of the United States. In addition to recommendations on major forces, it includes the rationale supporting the forces and assessment of risks associated therewith, costs and manpower estimates, and other supporting data. (Ref 55:105).

In September, the Secretary of Defense issues the Defense Policy and Planning Guidance (DPPG), which is based on a comprehensive review of JSOP, Volume I, as well as decisions made by the President and the Secretary of Defense. The Joint Chiefs of Staff (JCS) and the Military Departments then review the DPPG and submit their comments to the Secretary of Defense (SECDEF). The DPPG does not impose any specific fiscal constraints, but it does discuss current resource limitations. After considering JSOP, Volume I, the DPPG, and all comments received from DOD components, the Joint Chiefs of Staff issue JSOP, Volume II, Analysis and



[illegible]

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Force Tabulations, in December. Volume II presents recommended force levels as well as recommendations and supporting rationale for the development and deployment of new systems.

### Programming

The planning phase is completed in February with the issuance of the Planning and Programming Guidance Memorandum (PPGM) by the Secretary of Defense. The PPGM provides fiscal guidance and other documents, including an updated version of the DPPG. The programming phase continues through the preparation of the Joint Force Memorandum (JFM), the Program Objective Memoranda (POM's), the review and analysis of these documents, Issue Papers, and the Program Decision Memoranda (PDM's). This programming phase runs until the end of August.

The Joint Force Memorandum (JFM) is submitted by the JCS to the Secretary of Defense in early May. This document is in compliance with the Planning and Programming Guidance Memorandum (PPGM) and provides the recommendations of the JCS on fiscally constrained force levels and support levels. The JFM identifies major force and force-related issues which will require decisions during the current year.

Each DOD component submits a Program Objective Memorandum (POM) shortly after the Joint Force Memorandum. A POM is:

A memorandum in prescribed format submitted to the Secretary of Defense by the Secretary of a Military Department or the Director of a Defense Agency which recommends the total resource requirements within the parameters of the published Secretary of Defense fiscal guidance. (Ref 55:107)

The Air Force POM is a statement of the Air Staff proposed position. It is approved by the Air Force Chief of Staff and is signed by the Secretary

of the Air Force. The POM covers a period of five years for program costs and eight years for forces. Since the POM is supposed to correspond with Secretary of Defense guidance, the Air Force may choose to submit an alternative POM, which does not comply with SECDEF guidance. The Secretary of Defense will also consider this alternate POM. (Ref 2:2-9) The POM preparation forces the Air Force to challenge its own programs, to compare alternatives, to consider new programs, and to justify its recommendations. It is toward this POM submission that program/budget submissions at the operating level are directed.

During June and July the Secretary of Defense transmits Issue Papers to DOD components for comment. These Issue Papers define the issue, note the alternatives, and evaluate the alternatives. These Issue Papers and their attached comments then form the basis for decisions by the Secretary of Defense in the Program Decision Memorandum (PDM). (Ref 2:2-9)

After the Secretary of Defense reviews the JFM, POM's, analysis studies, and Issue Papers, tentative Program Decision Memorandums are published in late July. These PDM's give the decisions of the Secretary of Defense on POM's and the JFM. The DOD components have 10 days to comment before the final PDM's are published in August. At this point the programming phase of the budget cycle is at an end (Ref 2:2-9).

### Budgeting

The budgeting phase begins with the initial issuance of Budget Guidance at the beginning of September. In October, the DOD components submit their budget estimates for the next fiscal year to the Secretary of Defense. A FYDP update is also submitted at this time. Then, beginning

in early November, tentative Program Budget Decisions (PBD's) are published by the Secretary of Defense. These PBD's can be challenged, but final PBD's are usually issued by the end of December.

The end products of this process act as inputs to the President's budget, which is presented to Congress in January. In addition, the FYDP and Air Force Systems Command Five Year Program are updated to reflect the decisions made during the PPB process (Ref 2:2-9).

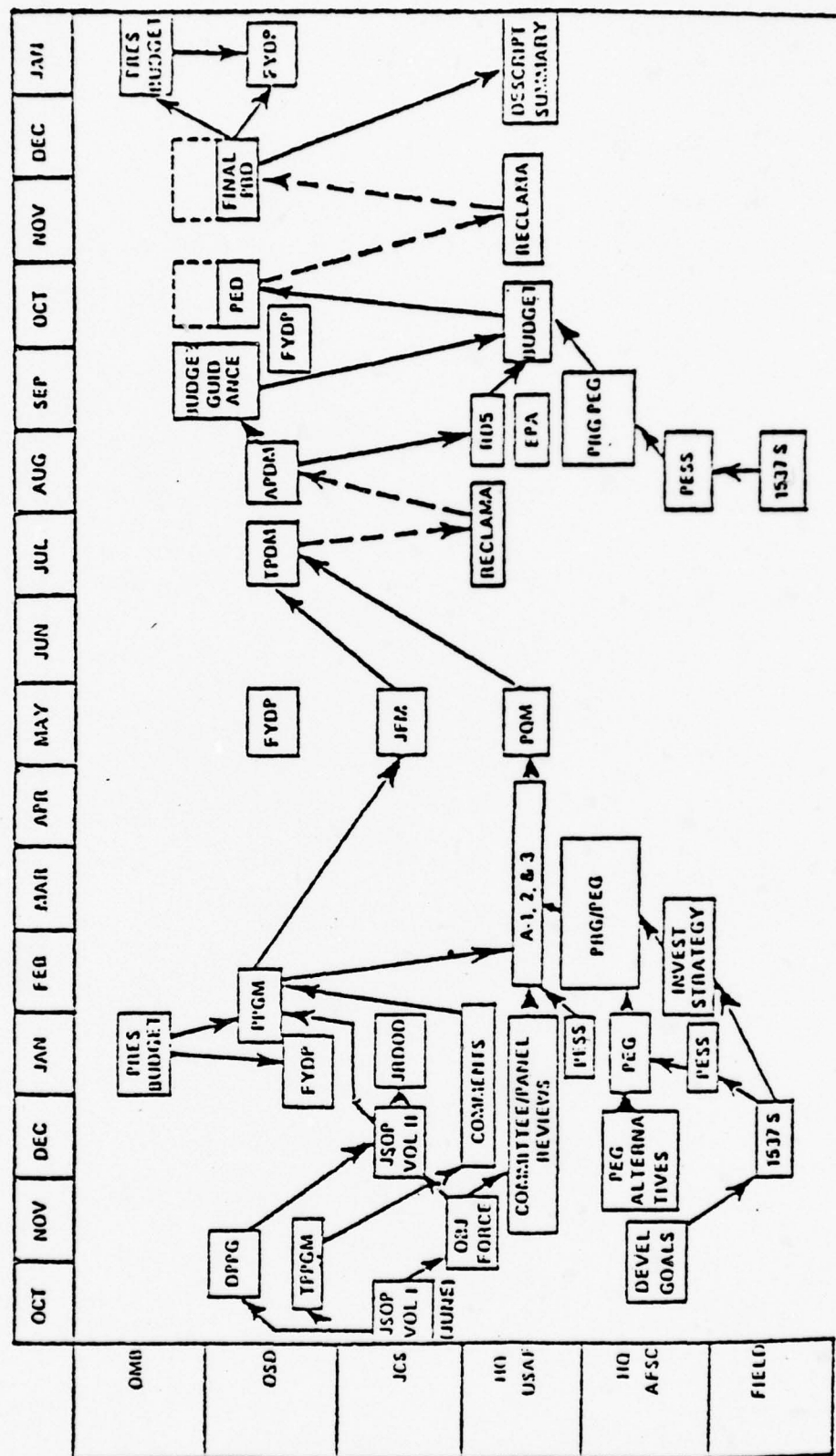
#### Inputs From the AFSC Operating Level

As stated in the previous section, the Air Force proposes its plan through the Program Objective Memorandum. This is a document which identifies all proposed Air Force programs, new as well as old. This document also presents a detailed analysis of these programs. The annual program/budget submission of field units (e.g. SPO's) is directed toward providing the justifications for the plan contained in the POM. The principal means by which these units at the operating level within AFSC are able to make inputs to the budgeting system is the AF Form 1537 (Weapon System Budget Estimate). Figure 2 shows how inputs from the operating level fit into the USAF budget cycle.

Shortly after the issuance of JSOP, Volume 1, Headquarters Air Force Systems Command (HQ AFSC) develops goals that are transmitted to all attached units in the field. Then, in approximately December, these field units submit to HQ AFSC, via AF Form 1537, their proposals for new and old programs. Once these 1537's are received at AFSC Headquarters, they are analyzed and compiled to form a Systems Command proposal that is transmitted to USAF Headquarters. Headquarters USAF then takes all documents received and comes up with a tentative POM (designated A-1). There



# THE PLANNING, PROGRAMMING AND BUDGETING SYSTEM



• NOT FISCALLY CONSTRAINED

Figure 2. The DOD/USAF Budget Cycle (Received from USAF Controller, source unknown).

is interaction between HQ USAF and all subordinate units as two more tentative POM's (A-2 and A-3) are published. Then, the final POM, which is actually the fourth iteration, is published.

Now the AF Form 1537 once again enters the picture. During the first part of August, field units once again submit 1537's to HQ AFSC. However, these 1537's should be little more than a fine-tuning of the POM that was published three months prior. The purpose of this 1537 submission is to allow the field units the opportunity to account for any necessary changes or adjustments that have manifested themselves since the original 1537's were submitted eight months prior. This final set of 1537's is then used to make up the Air Force budget as presented to the Secretary of Defense.

When field units (i.e. SPO's) are required to submit program/budget estimates to higher headquarters, they do so by means of AF Form 1537. Financial managers assigned to Program Control within the respective SPO's assume primary responsibility for putting together all the necessary elements of the submission. In doing so, they contact all individual program managers to verify all documentation.

AF Form 1537 is a document that is used to provide detailed estimates of required funding for all programs/projects for a five year period, corresponding with the AFSC Five Year Program currently being developed. In addition, the form also indicates the amount of funds already budgeted for each program/project.

The preparation of this form requires the program manager to analyze the impact of both increased and decreased funding levels. In addition, he must make a decision as to the relative priority of all tasks associated with his program.

### Some Reasons For Budget Growth

When agencies formulate their budget requests and when Congress acts to appropriate funds, the basis for their decisions is primarily an incremental approach. Ordinarily, the previous year's appropriation is accepted as a "base," and analysis centers only on the increments which extend the budgeting program into the future. In the words of Arthur F. Burns:

Customarily, the officials in charge of an established program have to justify only the increase which they seek above last years appropriation. In other words, what they are already spending is usually accepted as necessary, without examination. (Ref 38:111)

The result of this budgeting approach is that the budget for nearly every government agency and program increases nearly every year. The increases are usually justified by constantly new or better services or programs, by inflation, etc. These may be valid reasons, but the real cause would seem to be a system that tends to perpetuate wasteful spending.

Department heads are aware of the incremental approach by Congress and are fearful that if they reduce their budget or fail to spend their total appropriation, they may find it difficult to get increased funding in future years when they need it to meet new needs that arise. As a result, requests for budgetary items are often submitted long after the need for the item has passed.

The time constraint on the spending of an appropriation can encourage the wasteful spending of all available funds prior to the end of the applicable fiscal year. Most appropriations are available for only a

specified time. When that time is over, any funds not yet obligated are no longer available for new obligations. Managers at all levels want to use all of their appropriated funds so they can justify their total appropriation. Therefore, in the last days before an appropriation expires, managers often make every effort to ensure that their total appropriation is obligated.

In addition to the fact that the budget for a given agency or program is constantly growing, another characteristic of government budgeting is the fact that government organizations often outlive their value. This can result because the need for a particular program or agency often goes unchallenged.

As it is now, most federal agencies come before Congress at budget time safe in the assumption that continuation of their programs is assured.  
(Ref 61:53)

Perhaps the most significant explanation for this phenomenon is advocacy. Every program or agency in being has its diehard advocates from the time of its birth. Those persons who deal with a particular agency or program grow comfortable with it, feel like experts on it, and will fight to keep it alive (Ref 24). In addition, Washington is full of lobbyists who represent the advocates of a particular agency or program. In a political environment it can be dangerous to attack an established agency or program.

#### Congressional Budget and Impoundment Control Act of 1974

Congress had long recognized the deficiencies in federal budgeting when it passed the Congressional Budget and Impoundment Control Act of 1974. Prior to passage of this act, timing within the budget process was



very poor. There was no Congressional action prior to February, with the budget year beginning only five months later on 1 July. There was no specific committee responsible for budget overview and there was no year-round budget staff available to Congress. Spending decisions were the product of many separate, unrelated decisions. There was a lack of coordination between Congressional decisions as to spending, surplus/deficit, and economic needs. There was an inability to compare and determine the relative importance of programs.

Congress recognized these shortcomings and specifically designed the new budget act to overcome them. The Congressional Budget and Impoundment Control Act of 1974 provides for Congress to establish national budget priorities and to make coordinated decisions on total federal obligation authority, expenditures and revenues, and budget surplus/deficit. Congressional Budget Committees were established in both the House and Senate. A Congressional Budget Office was established to assist the Congress. The beginning of the fiscal year was moved to 1 October and detailed procedures and deadlines for the Congressional budget process were established in order to meet that date.

The Congressional Budget and Impoundment Control Act of 1974 addresses many of the characteristics of the PPB system as discussed in the early part of this chapter. Congress attempted to incorporate some of these characteristics into the current budget system to a higher degree than they were in the past, as demonstrated below.

First, Congress has attempted to facilitate identification of the output of a given program in terms of its objectives. Title VII of the Congressional Budget and Impoundment Control Act of 1974 authorizes House

and Senate Committees to conduct program testing or analytic activities or to require agencies to evaluate programs and report the results to them. It also expands the program review and evaluation authority of the General Accounting Office (GAO) to enable it to provide additional assistance to the Congress. The GAO is to assess program performance relative to legislative objectives, to review and evaluate results of government programs, to recommend methods for review/evaluation of government programs, and to establish an office for program review and evaluation.

Second, Congress is attempting to better consider an extended time horizon and total program costs. The Congressional Budget Office (CBO) is responsible for preparing "to the extent practicable" a five-year cost estimate for carrying out any public bill or resolution reported by any committee (except the two appropriating committees). The CBO also prepares an annual report that addresses long-range impacts of these bills or resolutions. The President's budget is now required to reflect the budget year and the four succeeding years. Also, requests for new program authorizations must be submitted for at least the first two years of the program.

Third, there will be increased analysis of alternatives. The Congressional Budget Office (CBO) is responsible for furnishing to the Budget Committee in both the House and Senate an annual report on alternative allocations among major programs and functional categories, all in the light of major national needs. The CBO is also tasked with performing analyses for other Congressional committees and individual members.

### Summary

The budgeting system currently employed by the Department of Defense has evolved from the Planning-Programming-Budgeting (PPB) System that was introduced in the early 1960's. This budgeting system is characterized by a program structure and long-range plans. In addition, DOD must concurrently satisfy the authorization and appropriation processes.

The DOD budget preparation cycle goes through three distinct phases -- planning, programming, and budgeting -- and covers a period of 21 months. Within the Air Force, this cycle is characterized by frequent interactions between different levels of the Department of the Air Force and other federal government structures.

Congress recognized many of the inherent problems with federal budgeting when it passed the Congressional Budget and Impoundment Control Act of 1974. This act should provide Congress better control over the federal budget while ensuring that specific expenditures and their effects are analyzed much more closely than was true in the past.

### III. THE THEORY OF ZERO-BASE BUDGETING

#### Introduction

The basic purpose of any budgeting process is to effectively allocate limited resources among various objectives. However, experience has shown that this is not always accomplished. Rearing its head as an example of the worst that can happen is New York City and its financial plight. It is essential to realize that resources (dollars) are limited. No organization can afford to fund an agency or program that has outlived its usefulness. In the words of President Carter:

"...there is no inherent conflict between careful planning, tight budgeting, and constant management reassessment on the one hand, and compassionate concern for the deprived and afflicted on the other. Waste and inefficiency never fed a hungry child, provided a job for a willing worker, or educated a deserving student."  
(Ref 11:26)

A concept that is gaining popularity as a means of controlling budgets is zero-base budgeting (ZBB). This is a concept which at its most basic level means the periodic reevaluation of all programs (Ref 39:25). Zero-base budgeting is a management oriented approach that can be used to improve planning, budgeting, and operational decision making. The theory behind ZBB is the idea that the budget should be built from the ground up with nothing taken for granted. This approach makes it possible to make major reallocations from one year to the next (Ref 42:5).

The purpose of this chapter is to discuss the theory behind zero-base budgeting as well as the steps necessary to put the concept into practice, without any attempt at judgment of the concept. The discussion will concentrate on the essential elements of ZBB, the zero-base process, and design considerations when implementing the concept.



The concept of zero-base budgeting relies on key features and terms. Frequently used terms inherent to the zero-base budgeting concept, along with their definitions, are included as Appendix A of this study.

### Zero-Base Budgeting Defined

Zero-Base Budgeting (ZBB) can be defined as:

An operating planning and budgeting process which requires each manager to justify his entire budget request in detail from scratch and shifts the burden of proof to each manager to justify why he should spend any money at all. This approach requires that all activities be identified in "decision packages" which will be evaluated by systematic analysis and ranked in order of importance. (Ref 41)

Zero base budgeting is a bottom-up approach that deals with the total budget request, not just the increase or decrease over the previous year. Existing activities are scrutinized as closely as proposed new activities. There is an emphasis on choice. Alternative ways of providing services are considered as well as alternative funding levels. However, zero-base budgeting does not make the decision-making process any easier. Zero-base budgeting rests on the assumption that a decision-maker will choose the optimum alternative as long as he is provided the proper information upon which to base his decisions. Zero-base budgeting provides information in a systematic structure that aids decision-makers. Zero-base budgeting provides the necessary information, but it does not ensure that the correct decision is made (Ref 27:20).

It is important to note that ZBB is best applied to actionable or discretionary activities which have service and support as the primary outputs (Ref 22:3). Basically, "An actionable or discretionary item is an activity or program in which a cost/benefit relationship can be

identified, even if that relationship is highly subjective" (Ref 42:6).

Therefore, ZBB can be applied to such areas as marketing, finance, personnel, research and development, and maintenance (Ref 34:71).

#### Basic Elements of ZBB

The four basic elements of zero-base budgeting are:

- (1) Identification of "decision units."
- (2) Analysis of decision units and the formulation of "decision packages."
- (3) Ranking.
- (4) Allocation of resources accordingly (Ref 42:6).

The Office of Management and Budget defines a decision unit as:

The program or organizational entity for which budgets are prepared and for which a manager makes significant decisions on the amount of spending and the scope or quality of work to be performed .  
(Ref 36:1).

Thus, decision units are the lowest-level entities for which budgets are prepared. They may be programs, organizational units, cost centers, etc.

The decision units should correspond to the responsibility for budget decision-making and should have an identifiable manager. Other factors to be considered when selecting decision units include relative size and data constraints (Ref 50).

Once the decision units have been determined, it is necessary to analyze them and to formulate decision packages. Mr. Pyhrr states:

A decision package identifies a discrete activity, function, or operation in a definitive manner for management evaluation and comparison with other activities. The identification includes:

- Purpose (or goals and objectives).
- Consequences of not performing the act.
- Measures of performance.
- Alternative courses of action.
- Costs and benefits. (Ref 40:6)

The Office of Management and Budget defines these decision packages in terms of documentation requirements as:

A brief justification document that includes the information necessary for managers to make judgments on program or activity levels and resource requirements. A series of decision packages (a decision package set) is prepared for each decision unit and cumulatively represents the total budget request for that unit. (Ref 36:1-2)

The analysis of decision units and formulation of decision packages is a very involved and time consuming process. First, it is necessary to describe in detail the current method of operation while at the same time developing performance or output measurements and detailing the major objectives. Next, it is necessary to develop alternatives and to evaluate the corresponding advantages and disadvantages of each. A "minimum level" or "survival level" must be determined. This is the level of service and funding below which the decision unit might as well be eliminated. Once the minimum level has been established, successive increments of service and cost are outlined (Ref 50). In most cases there is no firm rule as to the total number of decision packages for each decision unit.

Typically, the analysis of these decision packages is communicated to the next higher manager on a set of forms (Ref 26). Then, the organization can hold managers accountable for the programs and performance to which they are committed in each decision package (Ref 42:10-11).

The next element of the ZBB concept involves the ranking of decision packages. A manager reviews all decision packages from all decision units

reporting to him and then lists them in order of relative priority. In practice this ranking process can be accomplished either by a single manager or by a committee that includes this same manager and all decision unit managers reporting to him (Ref 53). This process is repeated at succeeding levels of the organization's management structure, with lower-level decision units serving as decision packages at the next higher level. The ranking process is demonstrated in Figure 3.

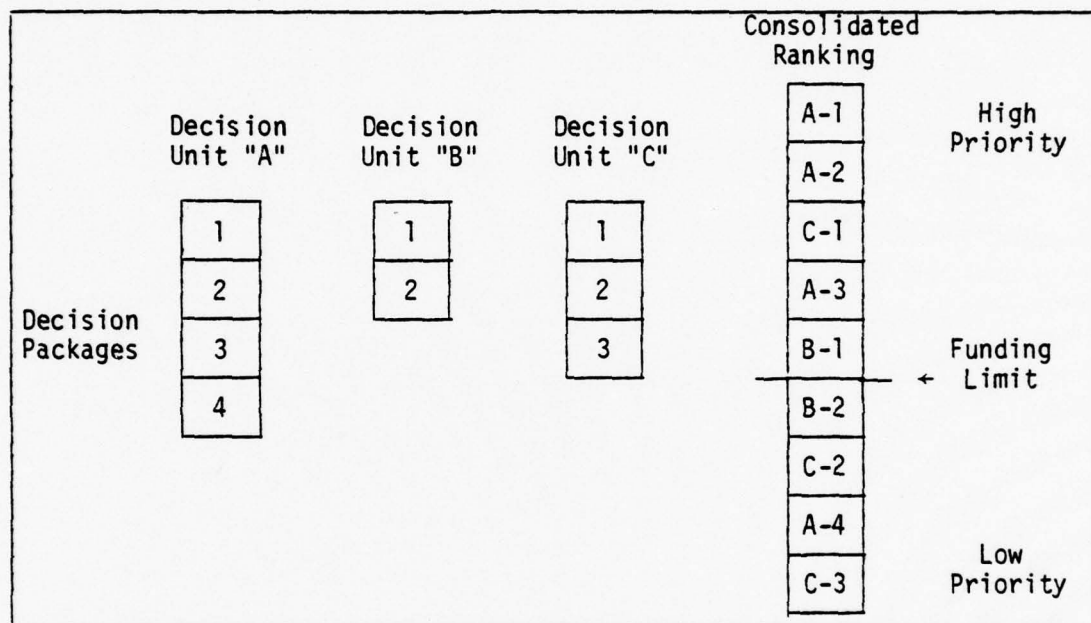


Figure 3. The Ranking Process

Once the ranking has been accomplished management allocates resources accordingly. A cutoff-line is established on the ranking list to correspond with a desired expenditure level. All decision packages up to the level of affordability are approved and funded. As changes in funding occur, the cutoff-line is shifted in the appropriate direction. How all of these elements fit together is depicted in Figure 4.



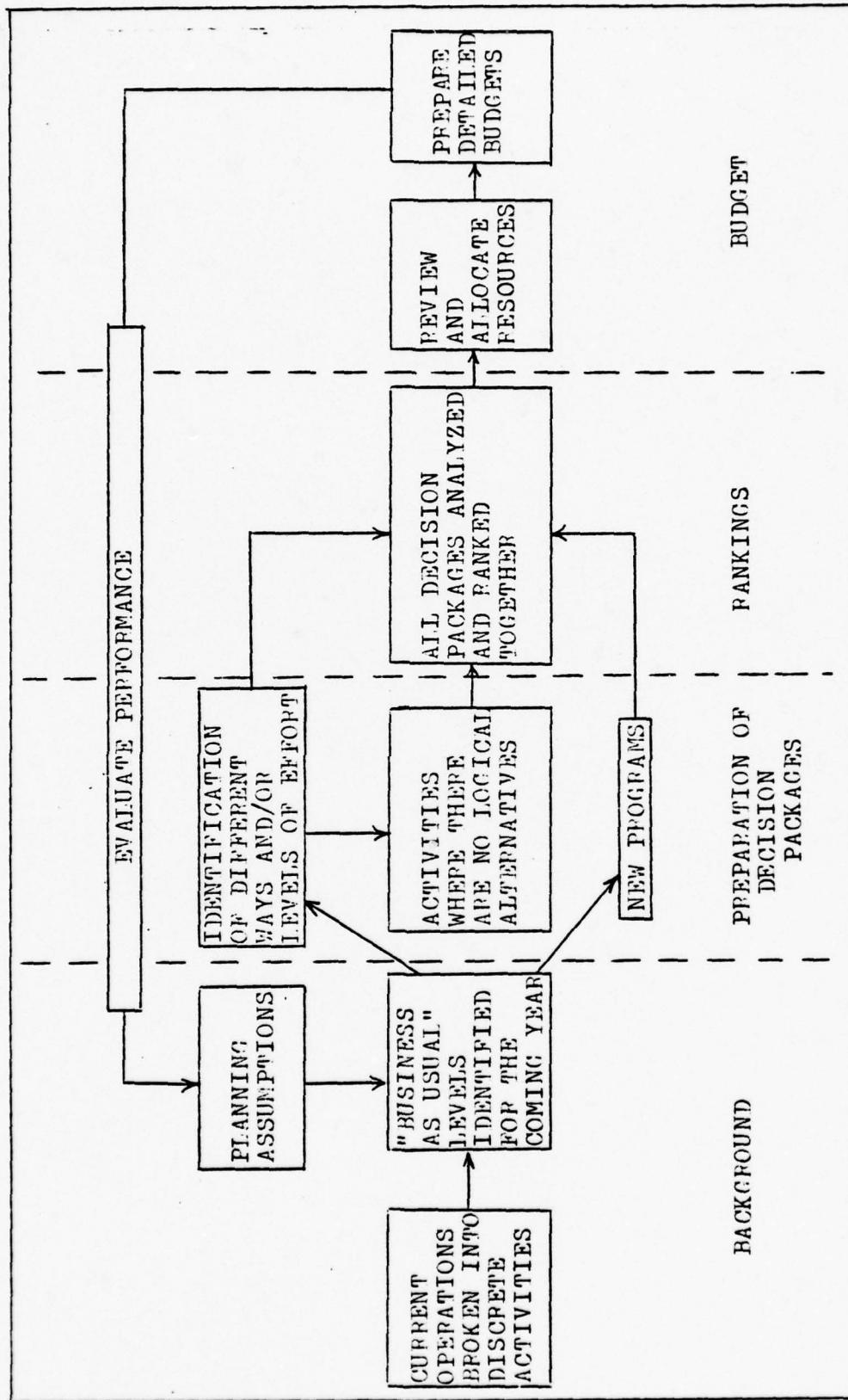


Figure 4. The Zero-Base Process (Ref 40:13 & 50)

### ZBB Design Considerations

Before implementing ZBB it is essential that the organization consider such factors as:

- (1) The strengths and weaknesses of the existing budget process.
- (2) The objectives and expectations for ZBB.
- (3) The consumer who will use the information generated.
- (4) The implementation strategies to be followed.
- (5) The degree of linkage to existing management systems.
- (6) The ZBB "technology" to be employed. (Ref 53)

Any attempt to implement a new process like zero-base budgeting should begin with a thorough analysis of the present process. The relative strengths and weaknesses of the existing process must be determined. In this way the new process can be tailored to take advantage of the strengths of the old process while eliminating the weaknesses (Ref 53).

Next, the organization should consider exactly what it hopes to achieve by implementing ZBB. These objectives can include:

- To cut budgets rationally.
- To reallocate resources.
- To provide more credible justifications for budget requests.
- To forge a link between budgeting, operational planning, and control.
- To improve management insights.
- To involve line managers in budget formulation.
- To achieve "organizational development" objectives.

- To evaluate management capabilities of subordinate managers.
- To establish program objectives against which accomplishments can be identified and measured.
- To assess alternative methods of accomplishing objectives.
- To analyze the probable effects of different budget amounts or performance levels on the achievement of objectives. (Ref 53, Ref 36)

The design of the ZBB process is also dependent upon who is to use the information generated. The principal "Consumer" can be located at any level in the organizational structure and the information necessary at different levels can differ significantly. The consumer can be a legislative body, the chief executive, a department head, line manager, or any combination thereof (Ref 50).

Implementation strategies must next be considered. First, the scope of the process must be determined. The decision must be made whether to apply ZBB to the entire budget or to exclude certain activities or expenditure items (Ref 53). Second, the determination must be made whether to proceed with full-scale implementation across the entire organization or to set up a test across only a small part of the organization. In order to make this decision, management must consider the degree of risk it is willing to accept, the size and degree of centralization of the organization, the capabilities of the managers to be involved, the depth of decision package development, and the time available (Ref 40:117). The next consideration involves the relationship of ZBB to the existing budget process and the appropriate linkage with existing management systems. It

must be decided whether ZBB is to be a replacement or an add-on to the present budget process (Ref 53). Also, a decision must be made as to the relationship between ZBB and the current planning, control, and information systems. If applicable, management must decide whether or not ZBB can be linked to an existing PPB or MBO system (Ref 50).

Finally, management must consider the technical and procedural aspects of the ZBB process. In particular, management must look at:

- The logic of decision units (How are they identified and defined).
- What kind of analysis will be emphasized? (e.g., Status quo?)
- The forms, procedures, calendar of events, and manual of instructions.
- The training and technical assistance necessary (Ref 53).

#### Summary

Zero-base budgeting (ZBB) is a concept which at its most basic level means the periodic reevaluation of all programs. It is a bottom-up approach that deals with the total budget request, not just the increase or decrease over the previous year. The four basic elements of ZBB are:

- (1) Identification of "decision units."
- (2) Analysis of decision units and the formulation of "decision packages."
- (3) Ranking.
- (4) Allocation of resources accordingly.



Successful implementation of zero-base budgeting requires explicit consideration of such factors as: the strengths and weaknesses of the existing system, the objectives for ZBB, the "consumer" who will use the information generated, implementation strategies to be followed, the degree of linkage to existing management systems, and the ZBB "technology" to be employed.

#### IV. EXPERIENCE WITH ZBB

##### Introduction

The preceding chapter has addressed the theory of zero-base budgeting (ZBB), with no specific consideration of the benefits and problems to be expected. Advocates say that ZBB will cut down wasteful government spending. Critics, on the other hand, say that the theory sounds good, but in practice ZBB will do little more than generate paper work (Ref 62: 79). Exactly what ZBB will do for the federal government remains to be seen.

Obviously, implementation of a new concept like ZBB means the disruption of normal procedures as affected personnel gain familiarity with the new concept. This is true with the introduction of any change and not just with ZBB. However, a number of potential benefits and problems can be associated with zero-base budgeting. It should be noted that not all of these benefits and problems are applicable to a given organization. Management must decide which benefits and problems are applicable to its specific organization and then make some evaluation as to whether or not ZBB is worth the price. This is a decision that each organization must make individually.

The purpose of this chapter is to examine ZBB in terms of potential benefits and problems. The first part of the chapter is a discussion of the potential benefits and problems that can occur in any organization. Next comes an examination of two well-documented cases where ZBB was actually implemented in government -- the United States Department of Agriculture and the state of Georgia.

### Potential Benefits of ZBB

Zero-base budgeting requires the participation of managers at all levels within the organization. The major benefits of ZBB result from the inputs of all of these managers. On a theoretical level ZBB advocates claim a number of clear-cut benefits can be identified from an effective zero-base budgeting effort. Peter Pyhrr, generally acknowledged as the father of ZBB, divides these benefits into three general categories: (1) Improved plans and budgets, (2) Follow-on benefits (realized during the operating year), and (3) Developing the management team (Ref 40:32).

#### Improved Plans and Budgets

Peter Pyhrr states that "The most immediate benefits gained from zero-base budgeting, and the prime purpose of instituting the process, are improved plans and budgets." (Ref 40:32) These benefits result because:

- Planning, budgeting, and operational decision-making are combined into one process.
- Efficient reallocation of resources can result.  
Low priority programs can be eliminated or cut back, and high impact programs can obtain increased funding by shifting resources within the organization.
- Similar functions among different departments can be identified for comparison and evaluation.
- Management participation and training in the planning, budgeting, and decision-making process is expanded across the organization.

- Identification, evaluation, and justification of all activities proposed promote a more effective allocation of resources. Alternative ways to meet objectives are identified and evaluated.
- Quick budget adjustments or resource shifts are possible when allowable expenditure levels change. Once decision packages are identified and given a priority ranking, this ranking identifies which packages would be added or deleted to achieve the desired expenditure level.
- The management process focuses on analysis and decision-making rather than on numbers. In other words, "what, why, and how?" are considered in addition to "how much."  
(Ref 11, 40, 36)

#### Follow-on Benefits

After the budgeting cycle is completed, there are follow-on benefits that the organization can realize during the budget year. These include the following:

- There is a tendency on the part of managers to continue to evaluate in detail their operations, efficiency, and cost effectiveness during the operating year.
- Managers can be measured against the goals, performance, and benefits to which they committed themselves in their decision packages.



--The ranked list of decision packages can be used during the year to identify activities to be reduced or expanded if allowable expenditure levels change.  
(Ref 40:34-35)

#### Manager Development

The third general category of benefit that can derive from ZBB is manager development. Zero-base budgeting is an educational process that can promote the development of the management team. Because ZBB is a bottom-up approach, managers at all levels of the organizational structure must take an active part. The kind of detailed analysis that is inherent in ZBB necessitates that each manager know in detail the part of the organization for which he is responsible. The quality of decision packages prepared by each manager can serve to evaluate his management capabilities. In addition, managers may serve on committees that rank multiorganization decision packages. This process can produce a better understanding and appreciation of other activities and problems. (Ref 49:35). Thus, involvement of line managers in the budget formulation can improve management insights. Managers at all levels can become more knowledgeable about the role of their function within the overall organization and more aware of the basic interrelationships within the structure (Ref 30:91).

Participation. President Jimmy Carter has stated that he considers the most important benefit of ZBB to be expanded management participation (Ref 11:26). This would seem to be a recognition of the idea that "budgets are accounting techniques designed to control costs through people" (Ref 5:97). Participation is a means of minimizing the shortcomings of

traditional budgeting and is a valuable inherent function in motivation theory. It is through participation that most of the other benefits of ZBB will be realized. Expanded participation is not only a benefit -- it is a requirement.

Numerous studies have been conducted to ascertain the effects of participation. For example, Locke (1966) found that when subjects were allowed to set their own goals, a definite positive relationship resulted between the level of intended achievement and the level of actual performance (Ref 49:547). Searfoss and Monczka (1973) found a positive relationship between perceived participation in the budget process and motivation to achieve the budget goals (Ref 49:548).

The active participation of middle managers who are responsible for performance helps promote understanding and acceptance of the plans. Additionally, participation results in better relations between line and staff personnel and clarifies performance responsibilities. As the middle managers participate and start adopting the goals of the organization as their own, conflict is reduced, communications improve, and the negative effects of department centeredness are minimized.

#### Potential Problems with ZBB

As just discussed, zero-base budgeting presents a number of potential benefits, but even its advocates admit it is not without its problems. Expected problems can be divided into three general categories: (1) Fears and administrative problems, (2) Decision package formulation problems, and (3) Ranking process problems.

Paul J. Stonich, a ZBB management consultant, indicates that his experience has shown that most implementation problems center on the decision unit managers (Ref 52:3). Successful implementation necessitates consideration of the complexities of human behavior. An understanding of why and how individuals act, feel, and respond can make any job in which human relations are involved much more effective and more likely to succeed.

#### Fears and Administrative Problems

Peter Pyhrr feels that "The major problem is the threat that many bureaucrats feel towards a process which evaluates the effectiveness of their programs." (Ref 37:8) Many managers are fearful of any system that probes into the innerworkings of their organization and forces them to identify every activity and exactly what it costs. This is especially upsetting to managers who favor the status quo and like to avoid making decisions. In addition, for many managers the name "zero-base" is threatening and/or the idea of identifying minimum levels of effort below the current level implies budget cuts. As a result, decision unit managers are often hesitant to participate. (Ref 52:3, 40:27, 13:299) Pyhrr goes on to say that his experience has shown this to be more of a problem with managers in government than those in industry.

As more people become involved in the budget process, which is a requirement of ZBB, administration and communications become more complicated. First, there are the normal administration and communications problems associated with large organizations. The bigger the organization, the more severe these problems become. In addition, the implementation of ZBB will involve technicians and specialists with no background

in budgeting in the new budget process. This will serve to compound the problems already caused by "bigness." (Ref 40:27, 13:300)

Serious problems can occur if upper-level management fails to communicate adequate policy and planning assumptions to lower-level managers who will be preparing decision packages. With no formalized guidance, managers will make their own (possibly differing) assumptions. With no formal mechanism for providing and revising assumptions, precious time can be wasted on nonproductive pursuits. (Ref 40:28)

Perhaps the most common criticism of zero-base budgeting is that it requires more time and effort than the traditional budget procedures. This is especially true when the concept is new and unfamiliar to the managers. However, ZBB advocates are quick to point out that this is only initially true. The time required will decrease significantly as all persons involved become more familiar with the concept (Ref 30:91, 22:11).

#### Decision Packages Formulation Problems

Several problems have been identified in the area of decision package formulation. First, there is the problem of identifying exactly which activities, functions, or operations should form the basis of decision packages. Upper-level management must determine what is "meaningful" for purposes of the budget process. This means that the decision packages must have meaning for both the people preparing them as well as those reviewing and evaluating them (Ref 49:30, 45).

The theory of ZBB requires that a minimum level of effort be identified for each decision package. As already mentioned, this can appear threatening to decision unit managers. The idea of specifying a minimum



level below the current level is unthinkable to many managers who would rather believe that they are already at the minimum level. To these managers a minimum level below the current level may imply that functions or pet projects they consider essential can be done away with. Carried to a further extreme, it is difficult to imagine a manager who would recommend the elimination of his own program or agency (Ref 40:30).

Another problem in decision package formulation is the identification of work measures and evaluation data as a means of assessing cost-effectiveness. In many cases such measurements and data are simply not available (Ref 40:30; 13:300). Or, when they are available, they may be of questionable value. In the words of Phillip S. Hughes, Assistant Comptroller General of the United States:

Seldom can measurements which produce qualitative and quantitative information describing a program present a complete and valid representation of program effectiveness. (Ref 62)

#### Ranking Process Problems

The initial problem with the ranking process is the determination of who will do the ranking, at what levels within the organization's structure will the decision packages be ranked, and what method and criteria will be used to evaluate and rank the decision packages (Ref 40:31).

Second, managers can have considerable difficulty in objectively evaluating the priority of decision packages required by law, considered "high-priority" by upper-level management, or considered essential to continued existence of the organization. In practice, such activities will go to the top of the ranking scheme (Ref 40:31; 57:301; 38:117).

Third, it can prove extremely difficult, if not infeasible, to objectively evaluate and rank dissimilar functions. The nature of dissimilar functions may necessitate subjective evaluation. If such an evaluation is forced, the end result can be warfare both among and within departments and agencies (Ref 40:31; 13:301).

Fourth, when ZBB is implemented in a large organization, upper-level management can be overwhelmed by a large volume of decision packages. There are definite limits to how much information any manager can process. Overloading the manager's capabilities makes effective evaluation and subsequent ranking impossible (Ref 40:32; 38:117; 10:301).

### ZBB in Use

The concept of ZBB has had limited application within government. Whereas the preceding discussion dealt with the potential benefits and problems of implementing ZBB in any organization, the next section of this study examines two well-documented instances where the concept was applied -- the United States Department of Agriculture and the state of Georgia.

#### ZBB in the United States Department of Agriculture

In 1962 the United States Department of Agriculture (USDA) decided to attempt a comprehensive and simultaneous evaluation of all departmental programs. The budgeting technique in use prior to that time was deemed inadequate for such an analysis, so a ZBB approach was adopted. Reflecting the general mood of this period was a letter from Director of the Budget, David Bell, to the Secretary of Agriculture, Orville Freeman,

suggesting that a more comprehensive approach to budgeting was in order. Mr. Bell stated: "I think we should in a real sense reconsider the basic funding for each program -- justify from zero in the budgetary phase." (Ref 6)

In April of 1962 the Office of Budget and Finance of the Department of Agriculture issued "Instructions for 1964 Agency Estimates," which called for radical changes to the budget process, as follows:

A new concept has been adopted for the 1964 agency estimates; namely, that of zero-base budgeting. This means that all programs will be reviewed from the ground up and not merely in terms of changes proposed for the budget year...The total work program of each agency must be subjected to an intensive review and evaluation..Consideration must be given to the basic need for the work contemplated, the level at which the work should be carried out, the benefits to be received, and the costs to be incurred...

The fact that certain activities have been carried out for a number of years will not, per se, adequately justify their continuation. Nor will the fact that programs are prescribed by statutory law necessarily be a controlling consideration. Program goals based on statutes enacted to meet problems or needs that are today of lesser priority must be reevaluated in terms of present conditions.

It is implicit in the zero-based budget approach that the need for programs and their recommended magnitude in the fiscal year 1964 be clearly and specifically demonstrated...The justifications should be prepared on the assumption that all [emphasis supplied] information needed for making budget decisions should be included (Ref 60:326-327)

In 1963 Aaron Wildavsky and Arthur Hammann conducted a detailed study of the implementation of ZBB in the Department of Agriculture. Wildavsky and Hammann interviewed 57 managers who dealt intimately with the ZBB concept. The results of their study are discussed below.

ZBB Problems in USDA. The USDA experiment was doomed from the start. Managers were totally unfamiliar with the zero-base budgeting concept and were given no significant training in the procedures. As a result, these procedures suffered a general lack of understanding. There was inadequate formal guidance from superiors, forcing managers to make their own assumptions and to develop their own systems. In addition, time was a serious limiting constraint. Only six weeks were allowed before reports were to be submitted. As a result, most managers felt that there was insufficient time to do an adequate job of evaluating programs. One budget officer stated that a "real examination" of his programs "would take at least a year." The result of this time crunch was that the continuation of major programs was not reexamined (Ref 60:321-346).

Serious problems were apparent in the area of decision package formulation and ranking. Managers had difficulty in conceptualizing circumstances in which there were no legislative mandates or past commitments. There seemed to be a political consensus that some programs should be found preferable. Many agencies assumed their programs were needed and acted accordingly. Many managers used statutory requirements or enabling legislation to justify their programs, although this was contrary to issued instructions. Time was in short supply so most managers concentrated on compiling data to support their existing programs (Ref 11:325-328).

Consequences of ZBB in USDA. The stated purpose of the ZBB was to examine all programs simultaneously from the ground up to discover any programs that did not warrant continuation at all or at their present level of expenditure. Detailed information about all programs was to be gathered together at one time in one place so that every program could be



compared with every other. Funds could then be allocated on a priority basis and unneeded funds could be identified (Ref 60).

Wildavsky and Hammann concluded that ZBB in the Department of Agriculture failed to achieve the stated purpose. In general, very few changes were attributed to zero-base budgeting. An excess expenditure for files in one agency was identified and a \$100,000 reduction in an obsolete research program was credited to zero-base budgeting. These results hardly seem to justify the 180,000 manhours that were estimated to have been spent preparing largely neglected reports. As a result, the experiment with ZBB has been universally branded a flop and was discontinued after only one year (Ref 60:335-336, 343).

It should be noted that even among those persons within USDA who commented favorably on the zero-base budgeting experience, no one suggested that the zero-base approach be followed every year. The general conclusion was that it might be useful every five years (Ref 60:342-343).

#### ZBB in the State of Georgia

In 1970 Jimmy Carter was elected governor of the state of Georgia. At about this time, Mr. Carter read an article by Peter Pyhrr describing the zero-base budgeting system implemented by Texas Instruments, Inc. After discussion with Mr. Pyhrr concerning the feasibility of installing ZBB in the state government of Georgia, Mr. Carter decided to implement ZBB for fiscal year 1973. Mr. Pyhrr then assumed a position as consultant to Georgia's Bureau of the Budget.

Opinions are mixed as to whether or not zero-base budgeting was a success in Georgia. Jimmy Carter contends that ZBB was a success, although its impact was quite subtle (Ref 11:25). Governor Carter credited

zero-base budgeting with cutting the spending plans by 55 million dollars. He went on to say that these cuts were accomplished with no significant decrease in state services. An independent research effort by George S. Minmier takes a more cautious approach to ZBB in Georgia. In the words of Mr. Minmier:

Based on the results of the study, it is difficult to label the zero-base budgeting system as being either a success or failure regarding its influence upon the effectiveness of the budgeting process in the State of Georgia. Clearly there have been elements of both success and failure associated with its use. (Ref 33:165-166)

Robert N. Anthony takes a more critical view. Mr. Anthony states that the facts do not support the glowing reports about ZBB in Georgia. However, he does say:

Compared with the antiquated budget process which Georgia had at the time, zero-base budgeting was probably an improvement -- almost any change would have been. (Ref 4:9)

ZBB Problems in Georgia. As with the USDA experiment, many of the problems in Georgia can be traced to poor introduction of the concept. Potential people problems were for the most part ignored (Ref 43:44). For example, only after he had decided to implement ZBB did Mr. Carter meet with his department heads to explain the concept and the reasons for its adoption. This has been credited with fostering an initially negative attitude toward the concept on the part of department heads (Ref 22:4). Also, there was a general feeling of inadequate advanced planning for the preparation of the fiscal year 1973 budget (Ref 33:69). However, the Georgia experiment did demonstrate one improvement over the USDA experience. During implementation in Georgia there was attention to instruction and fear removal, which was not true in the USDA, but this attention was still inadequate (Ref 43:44).

George Minmier found that one of the major problems experienced with the implementation of ZBB was the lack of specific budgetary guidelines specifying which programs and operations were to receive special emphasis. As a result, department heads attempted to treat all programs the same, which was not always in line with the Governor's views. This meant that many decision packages and rankings had to be revised by the department heads after their initial submission, thus increasing an already large workload (Ref 33:73).

Another problem during the decision package formulation stage was that fixed percentage guidelines were issued for all departments. Decision packages were to have aggregate totals of not less than 80 percent nor more than 115 percent of the previous year's appropriation (Ref 33:74). In discussing this 80 percent floor, Robert Anthony stated:

Well before the end of the first budget cycle, it was agreed that expenditures equal to approximately 80 percent of the current level of spending would be given only a cursory examination and that attention would be focused on the increment. Thus, even before one got around of the new system, the "zero" bench mark was replaced by 80 percent. Moreover, the amounts above this floor were in fact "increments" despite the claim that the process is the opposite of incremental budgeting...80 percent is a long way from zero and increments above 80 percent are just as much increments as increments above some other base. (Ref 4:7-8)

The problem causing perhaps the greatest concern during the implementation of ZBB was that of information saturation. An unmanageable number of decision packages were created and analyzed, producing an overwhelming amount of information. Peter Pyhrr states that "In the State of Georgia, with 10,000 decision packages and 65 agency rankings, the volume was too great for the Governor to review all packages." (Ref 40:97)

Anthony points out that if Governor Carter had set aside four hours every day for two months he could have spent only about one minute on each decision package (Ref 4:8). On a considerably smaller scale, Pyhrr found that agencies with large numbers of decision packages (exceeding 250-300) had considerable difficulty in producing a single agency ranking (Ref 40:133). Mr. Pyhrr goes on to say:

...the Governor concentrated on the summary analyses and reviews provided by his financial staff in the Budget Bureau. He had a review with each agency, and concentrated his time on reviewing policy questions, major increases and decreases in existing programs, new programs and capital expenditures, and a few specific packages and rankings where there appeared to be problems. (Ref 40:97)

This sounds strangely similar to the traditional budgeting process used in most state governments.

Another major problem experienced in Georgia was the noncomparability of decision packages, which made effective ranking difficult if not impossible. This noncomparability was primarily due to the existence of different types of organizational structure within state agencies. Some agencies were structured departmentally, some functionally, and some a combination of the two. Without adequate guidance from above, decision packages were prepared according to each organization's structure (Ref 33:84-85).

Consequences of ZBB in Georgia. It has been claimed that three major benefits can be associated with the implementation of ZBB in the state of Georgia. First, a financial planning phase was established prior to the preparation of the fiscal year budget. This planning phase provided budgetary guidelines which could be used during budget preparation. Second, there was an improvement in the quality of management



information. Managers at all levels were given a much greater insight into the functions of state government. This improved management information was considered by Governor Carter to be the new budget system's greatest contribution. The third benefit of employing ZBB was an increase in personnel involvement in the state's budgeting process. (Ref 22:3, 10-11)

In spite of the benefits just mentioned, it is rather difficult to label Georgia's ZBB experience as a success. With some exceptions, the quality of decision packages and analysis was generally poor to mediocre. (Ref 40:130) Increased time and effort were required for budget preparation; there was no significant reallocation of the state's financial resources; and the decision package ranking was unable to handle funding changes (Ref 22:11). During 1974 an increase in the availability of state funds was identified, but rather than just shifting the funding cutoff line to include more decision packages, Governor Carter requested new decision packages. When a reduction of available funds for fiscal year 1975 was identified, instead of shifting the cutoff lines almost all departments again had to resubmit a new decision-package ranking based on the lower level of funding. A budget analyst explained this by stating: "The priority ranking of our decision packages when we expect 140 percent funding simply is not the same as when we expect 114 percent funding." (Ref 22:8-9)

### Summary

The potential benefits of zero-base budgeting can be divided into three general categories: (1) improved plans and budgets, (2) follow-on

benefits that are realized during the operating year, and (3) manager development, which includes expanded management participation. Expected problems can be divided into three general categories: (1) fears and administrative problems, (2) decision package formulation problems, and (3) ranking process problems. Experience has shown that most implementation problems center on the decision unit managers.

There are two well-documented instances where ZBB was applied in government -- the United States Department of Agriculture and the state of Georgia. Experience shows that the introductory phase is crucial to the success of the concept. Neither the USDA nor Georgia experience can be labeled an unqualified success.

## V. ZBB IN THE DEPARTMENT OF DEFENSE

### Introduction

During his campaign for the office of President, Jimmy Carter pledged that shortly after his inauguration he would require zero-base budgeting throughout the executive branch of the federal government. Based on his experience in the state of Georgia, President Carter considers ZBB to be potentially beneficial to the federal government. In a memorandum dated February 14, 1977, President Carter directed that all agency heads develop a zero-base budgeting system in accordance with instructions to be issued by the Office of Management and Budget (OMB). President Carter went on to say that the fiscal year 1979 budget would be prepared using zero-base budgeting (Ref 12).

How far the federal government goes toward attaining the desired benefits of zero-base budgeting remains to be seen. It can only be hoped that the lessons learned from past ZBB experiences will be heeded. A study of ZBB in the USDA and the state of Georgia should prove especially worthwhile in predicting the outcome of the implementation of zero-base budgeting in the federal government. This is true for two basic reasons. First, the USDA is the only well-documented, major attempt at zero-base budgeting within the federal government. Second, with the state of Georgia one finds not only a government application, but also the same chief executive, namely Jimmy Carter. In addition, we find some of the key officials who gained experience with the concept in Georgia. Bert Lance, Director of the Office of Management and Budget (OMB), was

Secretary of Transportation in Georgia. Jim McIntyre, Deputy Director of OMB, was budget director for the state of Georgia.

The purpose of this chapter is to discuss the requirements being imposed by the Office of Management and Budget as well as the actions taken by the Department of Defense and the Air Force to implement the ZBB concept. An evaluation of some of these requirements and actions is presented in Chapter VI of this study.

#### Expected Benefits of ZBB in the Federal Government

President Carter has stated that "An effective zero-base budgeting system will benefit the Federal government in several ways." Among the specific benefits mentioned by President Carter are:

- (1) The budget process will be focused on a comprehensive analysis of objectives and needs.
- (2) Planning and budgeting will be combined into a single process.
- (3) Managers will be forced to evaluate in detail the cost-effectiveness of their operations.
- (4) There will be expanded management participation in planning and budgeting at all levels of the federal government. (Ref 12)

The Office of Management and Budget has slightly modified President Carter's second benefit by stating that zero-base budgeting will provide better coordination of program and activity planning, evaluation, and budgeting. The Office of Management and Budget has also identified three additional benefits as follows:



- (1) Managers at all levels will be provided with better information on the relative priority associated with budget requests and decisions.
- (2) Managers will have to justify the resource requirements for existing activities as well as for new activities.
- (3) Justification will be focused on the evaluation of discrete programs or activities of each decision unit. (Ref 36)

#### Requirements Imposed by OMB

The Office of Management and Budget has been tasked by President Carter with ensuring successful implementation of zero-base budgeting. Staff members from the Office of the Secretary of Defense (OSD) have worked closely with the staff of OMB during formulation of OMB Bulletin No. 77-9 of April 19, 1977. This bulletin provides guidance on the use of ZBB techniques for the preparation and justification of budget requests within each agency. A copy of this bulletin is included as Appendix B of this study.

The Office of Management and Budget has determined the materials that must be submitted to OMB and the format these materials must take. Basically, a decision unit overview and set of decision packages or consolidated decision packages will be submitted for each decision unit. In addition, all agencies and departments must submit a ranking sheet that lists, in priority order, the decision packages that make up the budget request for that agency.

### Decision Unit Overview

The purpose of the decision unit overview is to provide the information necessary to evaluate and make decisions on each of the decision packages, without the need to repeat that information in each package. The decision unit overview should be at most two pages long and should contain the following:

- (1) Sufficient information to identify the decision unit.
- (2) The long-range goal of the decision unit.
- (3) The major objectives of the decision unit.
- (4) Feasible alternative ways to accomplish the major objectives of the decision unit.
- (5) A description of the progress the decision unit has made toward meeting the major objectives.

### Decision Packages

The decision packages carry the analysis to a more detailed level. In general, decision packages will be prepared for each decision unit; in some cases, decision packages will be prepared covering two or more decision units. Each decision package will address one level of resources for the decision unit (or combination). Each decision package should be at most two pages and should contain at least the following:

- (1) Identifying information.
- (2) A description of the work to be performed or services provided with the incremental resources specified in the package.
- (3) Resource requirements for the decision package.

- (4) A statement of the short-term objectives of the decision package.
- (5) A description of the impact on the major objectives of the resources shown in the decision package.
- (6) Any additional information that would aid in evaluating the decision package.

#### General Strategy of Implementation

Those individuals responsible for implementing ZBB within the Department of Defense and the Air Force do not envision ZBB as a radical change from current procedures. Agencies within the DOD should be able to utilize the DOD Planning, Programming, and Budgeting (PPB) System, which is recognized as having many of the inherent features of ZBB. Secretary of Defense Harold Brown has stated:

...with certain policy and system changes we will be able to call from our PPB system the basic data that will be required to assure effective implementation of the ZBB system. The principal areas requiring attention are as follows:

- Increased emphasis on the establishment of planning objectives.
- Involvement of lower level managers to the maximum extent practicable.
- Establishment of a procedure for prioritization (ranking). (Ref 7)

A primary concern of officials tasked with implementing ZBB is ensuring that the DOD components do not overreact. Additional paperwork is to be held down. Disruptions to current effective management practices are to be kept at a minimum (Ref 15).

### Application of the ZBB Concept

All agencies within the executive branch whose budgets are subject to Presidential review are to develop their own internal ZBB procedures within the guidelines furnished by OMB. In developing these procedures, agencies are to ensure retention of the fundamental characteristics of ZBB. Any agencies not specifically required to implement ZBB are also encouraged to develop ZBB procedures.

### Identification of Decision Units

An early step in the implementation of zero-base budgeting is the identification of decision units. The Assistant Secretary of Defense (Comptroller) has identified tentative decision units for use within the Department of Defense (See Appendix C). These decision units were selected to facilitate meaningful review while avoiding excessive paperwork. Basically, these decision units are oriented toward the appropriations structure and the FYDP in order to make maximum use of existing structure.

As of August 1977, the total DOD budget is broken down into 562 decision units. Of these, 116 directly concern the Air Force. These decision units are then consolidated, where possible, down to a DOD total of 526 (108 for Air Force). The Department of Defense takes these consolidated decision units and integrates, to the extent practicable, the decision units for the different DOD components into a DOD total of 214 integrated decision units.



### Decision Packages and Decision Package Sets

As noted earlier, decision packages will generally be prepared for each decision unit, but in some cases decision packages will be prepared covering two or more decision units. These decision packages will be arranged in decision package sets, which will constitute the basic decision documents during the program/budget review. All decision package sets must include at least a current level and a minimum level, and may include any additional levels deemed appropriate. Because of these various possible levels, an indeterminant number of decision packages will be prepared within DOD. However, a total of 437 decision package sets will be prepared. This includes 84 decision package sets for the Air Force.

Informal conversations with Pentagon budget experts suggest that for purposes of the FY 79 budget preparation, ZBB will have no significant impact within the Air Force at levels below the Department of the Air Force (DAF). This one time only, DAF will formulate the information as normally presented by DAF components and then arrange the information in ZBB decision packages and decision package sets for presentation to OSD. Informal conversations with persons responsible for implementing ZBB in the Air Force indicate that for preparation of the fiscal year 1979 budget submission, DAF will use the most recent Program Decision Memorandums (PDM's) as the basis for the current-level decision packages and the current Air Force Program Objective Memorandum (POM) as the basis for the enhanced-level decision packages. Indications are, however, that the determination of minimum-level decision packages is giving Air Force managers a great deal of trouble, since no pre-ZBB document has been identified as analagous to this requirement.

### Ranking of Decision Packages and Decision Units

When the Department of the Air Force submits its decision package sets to OSD, all decision packages are to be listed in rank-order sequence (prioritized). Then, after consolidation and integration, the decision packages that OSD submits to the President must also be rank ordered. Thus, at least theoretically, it will be possible to identify the most basic (highest priority) element in both the Air Force and DOD budgets. Informal conversations with those persons tasked with implementing ZBB indicate that as of August 1977 no procedure has been developed to accomplish this ranking in either the Air Force or Department of Defense.

### Future ZBB Requirements

Informal conversations with persons responsible for implementing ZBB in the Air Force indicate that it was recognized that there was insufficient time available to implement a full-blown, textbook approach to ZBB for the fiscal year 1979 budget. As a result, ZBB is currently being implemented on only a limited basis with no significant impact below the level of the Department of the Air Force. However, it is anticipated that greater field participation will be required for the preparation of the fiscal year 1980 budget (Ref 16).

Although the lower levels of the Air Force structure have not been directly involved with implementing ZBB for fiscal year 1979, there is a movement to acquaint lower-level managers with the concept. The Air Force Director of the Budget, Major General Hans H. Driessnack, is periodically writing letters for dissemination throughout the major

commands. The purpose of these letters is to explain the concept of ZBB while at the same time stating what progress has been made toward implementation. In addition, the Air Force is currently producing a movie explaining the concept. This movie is to be made available at all Air Force bases. Also, the Air Force is presently developing a guide for resource managers that will incorporate ZBB procedures and will be applicable down to the operating level of the Air Force. It seems reasonable to expect that resource managers at the operating level will be required to implement ZBB procedures and submit materials upward through the Air Force structure in compliance with the procedures and formats developed during the preparation of the fiscal year 1979 budget.

#### Summary

Zero-base budgeting is being implemented on a limited basis throughout the executive branch of the federal government for the preparation of the fiscal year 1979 budget. For the fiscal year 1980 budget, much greater participation will be required. President Carter is committed to the concept and is convinced it will have a beneficial effect on the federal budget process.

For fiscal year 1979, ZBB will have a significant impact on only the Department of Air Force level of the Air Force structure. Major commands within the Air Force will submit their budget requests in basically the same manner as always to the Department of the Air Force. It will then be up to DAF to formulate decision package sets to comply with decision units determined by OSD. The Department of the Air Force will submit its budget in terms of current levels, minimum levels, and

enhanced levels, with the enhanced level based on the Air Force POM and the current level based on the most current PDM. All decision packages prepared by DAF must be listed in rank-order sequence (prioritized). After reviewing all decision packages submitted to it, OSD formulates its decision packages which must also be prioritized for submission to the President. It is the determination of suitable minimum levels as well as the ranking process that is giving Air Force managers the most trouble.

The actual materials submitted by OSD to OMB are (1) a decision unit overview, (2) decision packages, and (3) ranking. Air Force procedures are being designed to facilitate this submission.



## VI. ANALYSIS, CONCLUSIONS, AND RECOMMENDATIONS

### Introduction

The preceding chapters have presented the current budget process within the Department of Defense as well as various principles and applications of the zero-base budgeting concept. This chapter analyzes certain potential implications of the implementation of zero-base budgeting within the federal government. Where applicable, specific reference is made to implications for DOD and Air Force. Included in this chapter is a comparison of ZBB and PPB in DOD and an evaluation of some of the actions taken to implement zero-base budgeting. The chapter concludes with the author's recommendations pertaining to further use of the ZBB concept in the federal government.

### A Comparison of ZBB and PPB

The officials responsible for implementing ZBB in the DOD recognize the great similarity between ZBB and PPB and intend to make maximum use of it. Peter Pyhrr, a staunch ZBB advocate, states that there is nothing conceptually new about ZBB (Ref 39:25). Pyhrr contends that ZBB and PPB are compatible and mutually supportive (Ref 40:152). However, Robert Anthony takes a more negative attitude toward ZBB. Anthony states:

Compared with the procedures that already are used in the federal government, it has nothing of substance to offer. The new parts are not good, and the good parts are not new. ...zero-base budgeting is a fraud. (Ref 4:9)

In 1968, well before ZBB came to prominence, Charles L. Schultze stated that, in theory, PPB is zero-base oriented. PPB does not accept the prior year's budget as the starting point for analysis. On the contrary, it seeks to evaluate on-going programs in light of specific program objectives and searches for more effective program alternatives. In theory, PPB implies an annual reevaluation of every aspect of every program. However, in practice, each program is not reevaluated each year. Schultze stated that a crucial feature of PPB is selectivity in the issues raised, programs reviewed, and alternatives examined (Ref 48:79-80).

Just like ZBB, PPB was developed as a counter to incremental budgeting.

...PPB seeks to replace, at least in part, the pernicious practice of incremental budgeting, under which the budget allocation process does not involve a review of the basic structure of programs but primarily consists of making decisions about how much each existing program is to be increased or, much less frequently, decreased. Each program cannot, of course, be reviewed from the ground up each year. But the analytic steps of PPB call for a periodic review of fundamental program objectives, accomplishments, and costs while considering the effectiveness and efficiency of alternatives. (Ref 48:23)

Therefore, in practice, PPB falls somewhere between pure incremental budgeting and annual zero-base review of all programs (Ref 48:81).

If the underlying characteristics of PPB, as covered in Chapter II, and ZBB, as covered in Chapters III through V, are considered simultaneously, it is possible to arrive at even more similarities. Both ZBB and PPB require that decisions be made on the basis of programs or activities. They both consider incremental changes of costs and benefits, while demanding that benefits be quantified. Both tie costs to benefits by means of

cost/benefit analysis. And, they both stress the planning function (Ref 19:53 and 13:13).

In addition, both PPB and ZBB require the identification and examination of goals and objectives in each major area of activity; the analysis of outputs of a given program in terms of its objectives; the measurement of program costs for an extended time period; the formulation of long-range objectives; and the analysis of alternative methods of accomplishing objectives.

In theory, the only real difference between ZBB and PPB is the requirement of ZBB to rank-order (prioritize) all programs/activities. This was never a requirement of PPB. In practice, another distinguishing feature is the requirement of ZBB to annually reevaluate all programs/activities. This was required by the theory of PPB, but it was never put into practice. All of the similarities and differences discussed above are summarized in Table I.

An examination of Table I shows that ZBB incorporates all of the characteristics of PPB and adds the annual reevaluation and priority-ranking of all programs/activities. This view is supported in testimony by Admiral Fine to a House of Representatives subcommittee on appropriations. In discussing the Navy's experiment with zero-basing the naval operations and maintenance budget for FY 78, Admiral Fine stated:

As the Navy perceives it, zero-base budgeting proposes two major changes to existing budgeting practices: (1) a comprehensive reappraisal and rejustification of all programs from a base of zero; and (2) an assignment of priorities to our programs in a way which will offer decision makers a preview of the consequences, good or bad, of various funding levels. (Ref 17:469)

TABLE I

Zero-Base Budgeting (ZBB) vs. Planning-Programming-Budgeting (PPB)

Characteristics	ZBB	PPB
Annual zero-base review of all ongoing programs	X	
Annual zero-base review of selected ongoing programs		X
Annual zero-base review of all new programs	X	X
Priority ranking for all programs/activities	X	
Developed as a counter to incremental budgeting	X	X
Based on programs (program oriented)	X	X
Consideration of incremental changes in costs and benefits	X	X
Benefits quantified	X	X
Ties costs to benefits	X	X
Stresses planning function	X	X
Identification and examination of goals and objectives in each major area of activity	X	X
Analysis of programs in terms of objectives	X	X
Measurement of total, long-range costs	X	X
Formulation of long-range objectives	X	X
Analyses of alternative methods of accomplishing objectives	X	X

(Ref 4; 48:23; 19:53; 13:13)



If one accepts the premise that ZBB is nothing more than PPB with annual reevaluation and prioritization added on top, then the question arises as to whether or not these are beneficial additions, if they are in fact additions. Admiral Fine suggests that agencies within the DOD are already complying with the substance, if not the form, of zero-base budgeting. He further suggests that requiring DOD agencies to comply with the form of ZBB will prove to be other than beneficial (Ref 17:469).

#### Annual Reevaluation

The need for an annual reevaluation of all programs/activities derives from the proposition that all agencies tend to assume continuation of prior funding while focusing on necessary incremental increases. Admiral Fine contends that this is not characteristic of the Navy, and a study of the Air Force budget process suggests that neither is it characteristic of the Air Force. Reviews by OSD and OMB do not indicate any reverence for prior year funding (Ref 17:469). An example of this is the fate of the B-1 bomber, which was cut out of the budget after millions of dollars had already been spent on it.

In testimony before the House Task Force on Budget Process, Allen Schick stated that people tend to underestimate what the present budget process achieves. Many people contend that once an item is placed in the budget, it never leaves. However, this is simply not the case. There are a considerable number of programs which are now funded at levels below what they were ten years ago. There are also a number of programs which were in the budget ten years ago but are no longer there. A careful analysis of agency budgets also indicates that there are within federal agencies constant redirections of effort. It is an oversimplification to say that once an item is in the budget it never leaves (Ref 46:258-259).

Schick goes on to say that to insist on an annual reevaluation of all programs every year, as proposed by ZBB, will present a new problem: "It simply is not possible, within that time framework, to rediscover, reconsider, or reevaluate from the bottom-up everything, every year or two." (Ref 13:259)

In speaking of PPB, Charles Schultze stated that attempting to carry out an annual zero-base review of all programs has several drawbacks. These drawbacks include:

...the political opportunity costs of seeking too many fundamental changes at any one time, the scarcity of analysts capable of providing the necessary background studies, and the limitation on top-level decision making resources. (Ref 48:82)

Wildavsky and Hammann reached conclusions very similar to those of Schultze, when they studied the USDA experiment. No one in the USDA suggested that the zero-base approach should be followed every year. "Attempts to do everything are not only self-defeating, they are inefficient in diverting resources from tasks which can be managed and give promise of some results." (Ref 60:344) In the USDA, a common view was that since budgets change little from year to year, an annual zero-base budget would result in "duplicating the same pages." (Ref 60:343)

Merewitz and Sosnick emphasize the political costs that can result from ZBB every year:

If nothing is regarded as settled, attention will focus, not on progressing, but on not regressing. Interested parties and their lobbyists will feel obliged to demonstrate that 'the public' still supports various programs. The executive branch will use up its energy and political capital defending old programs. Every year the same fights will be fought, the same wounds reopened, the current alliances disrupted, and a huge amount of energy wasted. (Ref 31:65)

### Ranking

In addition to the annual reevaluation of all programs/activities, another major selling point of ZBB is its purported ability to immediately meet changes in the level of funding by means of a priority-ranking list. However, experience in Georgia showed that this idea of listing all decision packages in order of relative priority is only of limited value and not worth the cost (Ref 22:11).

Such rankings have been attempted in government agencies, but they simply don't work. As discussed in Chapter IV, decision package ranking in Georgia was ineffective in meeting funding-level changes. When the projected funding level changed, department heads were required to submit new decision-package rankings. This was in recognition of the fact that program priority is influenced by the amount of funds projected to be available.

The requirement to prioritize decision packages can be conducive to gaming on the part of decision unit managers. Anthony suggests that priorities may be deliberately structured so that essential or politically popular decision packages are given low priority, with the assumption that those low priority packages will be approved and automatically constitute approval of those packages listed as having a higher priority. (Ref 4:8-9)

Another problem with the ranking process is that the real worth of a program/activity cannot be determined by merely reading a two-page form. For example, the USDA experiment with ZBB showed the 4-H Club to be budgetarily dispensable. It was expensive and cheaper alternatives were available. However, no politician would suggest killing the 4-H Clubs.

(Ref 4: 62:80) In practice, it is impossible to objectively evaluate and rank decision packages that are considered politically desirable (like the 4-H clubs), required by law, essential to the organization's existence, or from dissimilar functions. As an example of trying to rank dissimilar functions, it is impossible to objectively evaluate the relative value of a B-52 squadron vis-a-vis a health-care program.

When ZBB is implemented in a large organization, the number of decision packages can make effective ranking extremely difficult, if not impossible. Pyhrr found in Georgia that attempting to rank more than 250-300 decision packages could prove extremely difficult (Ref 40:133). However, other authors not associated with ZBB indicate that the number of decision packages which can be ranked effectively is actually much smaller. In a discussion on behavioral research, Fred Kerlinger states that the maximum number of items that can be ranked is approximately thirty (Ref 25:350).

Zero-base budgeting may require the ranking of an unmanageable number of decision packages in the federal government. In Georgia there were approximately 10,000 decision packages. For the federal government, some experts are estimating that it will take 20,000 decision packages to evaluate all federal programs (Ref 62:81). It is inconceivable to require someone to differentiate between programs having priorities of, for example, number 18,873 and number 18,874, yet this is exactly what the theory of ZBB requires. Even DOD, with 244 decision packages to rank, may have a tremendous problem.

When considering the value of a ranking process as required by ZBB, it is important to note that prioritization is already practiced, although at a much smaller scale. The Air Force has in being an



established priority system that is used in the allocation of critical resources among programs. An Air Force precedence rating is assigned to each Air Force unit or Air Force supported project based on its relative importance to the accomplishment of the Air Force mission. Within Air Force Systems Command, each specific segment (normally the program elements) of the currently funded R&D program is assigned a numerical rating (Importance Category) by HQ USAF. This rating serves as an official declaration of the relative importance to the Air Force of R&D efforts (Ref 2:3-3). Finally, as discussed in Chapter II, managers at the operating level (i.e. SPO) within Air Force Systems Command must make decisions as to the relative priority of each task making up a program/project when they use AF Form 1537, "Weapon System Budget Estimate." Thus, prioritization is already used from the operating level up to the Air Force level.

#### Promising Too Much

Past experiences have shown that a serious mistake can be made by promising too much in terms of benefits for a proposed change. For example,

One of the primary reasons for the alleged failure of PPBS to realize its full potential was simply that too much was promised for it. PPBS was proffered as a 'revolutionary' budget system, one which would radically change financial decision-making in government. Obviously, it was not a 'revolutionary' budget system, and at best, could be expected to result in a modicum of financial reform. (Ref 19:54)

It behooves those responsible for implementing a change like zero-base budgeting to refrain from promising too much for the change.

### Potential Benefits for ZBB in the Federal Government

If one considers the benefits claimed for ZBB in the federal government, one will see benefits that are for the most part directly analogous to PPB. In theory, both ZBB and PPB put the focus of budgeting on a comprehensive analysis of objectives and needs. They both require detailed evaluation of cost effectiveness. Both encourage increased management participation. Both provide managers with information on relative priority. Both suggest that existing programs should compete with new programs for scarce resources. And, finally, both suggest that the justification should focus on the evaluation of discrete programs or activities.

Early claims for ZBB in the federal government contain only one really new benefit -- that planning and budgeting will be combined into a single process. If this does happen, it may not be a benefit. In Georgia, one of the identified benefits of ZBB was the establishment of a planning phase prior to the budgeting phase. This was seen as an improvement over Georgia's previous practice of conducting the planning and budgeting phases concurrently. Georgia's experience would seem to directly contradict what is claimed as a benefit of ZBB.

In addition, Robert Anthony suggests that this combining of planning and budgeting seems to imply that there is no programming phase. Anthony states that this seems to imply that program decisions are made concurrently with budget decisions, but this simply cannot be done in the limited time available. Many decisions must be made during the programming phase (Ref 4:9). The OMB modifies this earlier claimed benefit by

suggesting that there will be better coordination between the planning and budgeting phase. This seems to be a true benefit, but again this appears to be nothing more than a restatement of PPB.

Zero-base budgeting in the federal government has been described in what may prove to be unrealistic terms. Benefits have been proposed that may be difficult to realize. First, it has been said that all of the 1979 fiscal year budget is going to be done using zero-base budgeting (Ref 27:19). This would seem to imply that the federal government is implementing ZBB in a full blown, textbook manner. However, as discussed in Chapter V, this is certainly not the case. For FY 79, ZBB will be on a very limited basis, and it is only in future years that it may be fully implemented.

Another claim for ZBB is that it will play an important role in reducing the volume of paperwork in the federal government (Ref 27:19). If there is one lesson to be learned from past experiences with ZBB, it is the fact that the volume of paperwork will increase with ZBB. For example, the Navy experiment with "zero-basing" its operations and maintenance budget for FY 78 has shown that justification documents which normally take 150 pages are running to nearly 2000 pages with ZBB (Ref 58:160).

Another claim for zero-base budgeting is that it will be extremely important in balancing the budget by fiscal 1981 (Ref 27:19). As mentioned in Chapter I of this study, 77 percent of the federal budget is uncontrollable because of past legislative mandates or entitlement programs such as Social Security (Ref 43:40). Since ZBB is theoretically applicable to only discretionary items, which this 77 percent does not

include, there thus is an immediate 77 percent of the budget that ZBB cannot affect. (It should be noted however, that OMB intends to zero-base even these uncontrollables (Ref 58:162).) It is unrealistic to expect the 23 percent that is controllable to balance the other 77 percent that is uncontrollable.

Given the above, ZBB can possibly affect only 23 percent of the federal budget. Of this 23 percent, 65 percent is in the area of national defense (Ref 26:334). If one accepts the contention that ZBB has little of value to add to PPB, it would seem reasonable to say that the allocation of funds in the area of DOD (which uses PPB) will not be changed by the implementation of ZBB. Therefore, this means that, if DOD is excluded, another 15 percent ( $23\% \times 65\% = 15\%$ ) of the federal budget will not be affected by the implementation of ZBB. As a result, ZBB can be expected to affect only eight percent ( $100\% - 77\% - 15\% = 8\%$ ) of the federal budget.

#### An Evaluation of ZBB Implementation Strategy and Actions

If one accepts the premise that ZBB and PPB are essentially the same, then it seems reasonable to expect that the same problems that affected PPB may also befall ZBB. E. Reece Harrill suggests that the failure of PPB in the federal government could be attributed to the manner in which it was introduced and implemented (Ref 20:21). Thus, an analysis of the manner in which ZBB is being introduced and implemented will give an indication of its chances for success.



### Chief Executive's Support

Organizations that have implemented ZBB have identified a number of elements that are essential for success. First and foremost is the personal involvement and commitment of top management (Ref 30:91 and 58:164). This is certainly true in the federal government. President Carter is committed to the concept and will personally participate.

### Participation

Next, in order to achieve positive manager motivation toward the new concept, managers at all levels should participate in the decision to adopt ZBB and in the design of the new system (Ref 22:4). Indications are that the decision to adopt ZBB in the federal government was a unilateral decision and participation in the decision was largely ignored. In fact, many budget experts questioned the wisdom of imposing what is seen as a revolutionary system in all federal agencies and departments at once (Ref 59:93), but the decision was made to go ahead anyway. However, managers are being allowed to participate in the design of the system. OMB has issued general instructions and permitted the agencies and departments to develop their own internal ZBB procedures within the guidelines of OMB.

### Adequate Planning

Next, there should be an adequate planning phase prior to implementation. Sufficient time should be allowed to permit testing of the system and adequate training for budget personnel (Ref 33:179). Since zero-base budgeting is a new concept, it is imperative that those who will deal with it be trained. The initial communication about the concept should be well conceived (Ref 52:4) in order to help win converts from the start and

also because this is where the training process begins. For the most part, these suggestions have been complied with at the levels at which implementation is taking place. It was recognized early that there was insufficient time to introduce a full textbook approach throughout the federal government. President Carter personally called for implementation and spelled out his feelings on the subject. Documents have been prepared at different levels to explain the concept. Several federal agencies have experimented with the concept on at least a limited basis. OMB is working with all departments and agencies to ensure that the concept is understood.

A shortcoming in this area is the fact that lower-level managers appear to have been pretty much left out of the preparation of the FY 79 budget, but indications are that they will be brought in for FY 80. The problem now is that these lower-level managers could feel left out and may develop a negative attitude toward the concept. Informal conversations with managers at the operating level (i.e. SPO) indicate a feeling that ZBB will not work and, if imposed on them, will mean nothing but trouble. These managers have yet to see anything official about the concept and all they have read about it has been in commercial magazines.

#### Legislative Support

Past experience with ZBB in government has shown that the support of the legislative branch of government should be sought. Ideally, there should be agreement between the executive and legislative branches as to the budgeting system used by the legislative branch and vice versa. The USDA experiment with ZBB ran into trouble because it was the only department using ZBB and it was still required to submit its budget in both the

traditional and ZBB formats. Thus, managers could see little value in ZBB and were never committed to the concept. There is interest within Congress with the ZBB concept, but ZBB is not a part of the Congressional budget process.

An interesting question arises here as to the form in which the budget will be submitted to Congress. Zero-base budgeting could be viewed solely as an aid to the preparation of the President's budget, with the budget presented to Congress as it has been for several years. It is difficult to imagine the President submitting to Congress a rank-ordered list of decision packages so Congress can decide on its own what funding level to choose. It is equally difficult to imagine the Congress refraining from requesting such a rank-ordered list when it is known to exist (Ref 53).

If ZBB is seen solely as an aid to the preparation of the President's budget, with no tie to the congressional budget process, there can be a detrimental effect on the preparation of the President's budget. Department heads who are not satisfied with their position in the President's budget will know that they will have another opportunity to secure additional funds during the Congressional budget process (Ref 33:181).

#### Impact of ZBB

In essence, the idea of ZBB stems from a desire to reevaluate all programs every year in order to curtail or terminate those that are ineffective or obsolete. An inherent tool of ZBB is the rank-ordering of all programs/activities to facilitate the handling of changes in proposed funding level. These are worthwhile aims, but they neglect the costs

attached. The only real differences between ZBB and DOD's PPB are the annual reevaluation of all programs and the rank-ordering of these programs. To some extent, DOD already incorporates both of these characteristics and to expand them as ZBB requires may prove to be costly. Previous discussions suggest that, as far as DOD is concerned, ZBB has little positive to add. The characteristics of ZBB will require more in the way of preparing and presenting reports and testimony, with little change in the allocation of available funds.

The Department of Defense could benefit indirectly, however, in that ZBB may make more of the federal budget controllable. Defense appropriations are a common target for "manipulation" of the federal budget (Ref 26:334). If ZBB forces more detailed scrutiny of appropriations in addition to national defense, then it is conceivable that budget reductions could be identified in these other areas. Thus, forced reductions in the area of national defense could be lessened.

It should be noted that of all agencies within the executive branch of the federal government, DOD appears to be the best prepared to implement the concept. For FY 79, zero-base budgeting will require the gathering of little additional information by DOD. Basically the same information will be presented, but in a different format. For succeeding years, the impact in the areas of RDT&E and procurement should remain minimal. However, indications are that, beginning in FY 80, operating budgets will be zero-based down to the base level. This could have a significant impact by requiring the preparation of much more detailed information.



For executive branch departments other than DOD, imposing ZBB could be devastating. If one accepts the premise that ZBB includes all the characteristics of PPB, then it seems reasonable to assume that ZBB will be subject to the same problems as PPB. PPB was a failure when imposed throughout the federal government (Ref 45:146). Since ZBB includes all of the characteristics of PPB and adds two characteristics that are not necessarily beneficial, ZBB in the federal government may meet with even less success than did PPB. For the most part, the implementation of ZBB has been well-planned and has heeded many of the lessons of the USDA and Georgia experiences, but expecting too much could limit its chances of success.

#### Recommendations Pertaining to Future Use of ZBB

The preceding sections of this chapter have included an analysis of certain potential implications of the implementation of ZBB in the federal government. Based on these discussions, two major changes, both intended to improve the effectiveness of the ZBB system, are suggested:

- (1) A complete zero-base budgeting effort should be accomplished by all agencies on a staggered basis, over an extended period of time.
- (2) The formal ranking of all decision packages should not be done.

However, before either of these changes is possible, managers at all levels of the federal government must recognize that ZBB is little more than PPB by a new name. If they recognize this, it will be possible to take advantage of the publicity recently afforded ZBB and to make really needed improvements in the federal budget process.

### ZBB Every Five Years

It is recommended that a complete zero-base budgeting review be accomplished by all agencies on a staggered basis, over an extended period of time. To require ZBB every year may impose an unmanageable workload on managers. If this happens, the result will very likely be some sort of compromise or satisficing that will not take advantage of what ZBB has to offer. Both the USDA and Georgia experiments indicated that a zero-base review does have some value, but there is no need to accomplish it every year. Requiring an annual reevaluation of everything makes the costs greater than the potential benefits. If each agency accomplishes a complete reevaluation only every few years, the extra time available would make much more detailed analyses possible. For example, one of the most common criticisms of ZBB is that it generates mountains of paperwork that are for the most part unread and certainly not studied. An extended time frame would make reading and detailed study possible.

The five-year time frame is suggested because this agrees with the findings of the USDA experiment and also because this is the period suggested by Senator Muskie's proposed legislation calling for "sunset laws" for all programs and agencies. Also, when Minnier studied the Georgia experience, he suggested a full, zero-base review should be accomplished every four years. Since the federal budget is considerably larger than Georgia's, it seems reasonable to add at least a year when applying ZBB to the federal government.

The basic idea behind the idea of staggering the zero-base reviews for all agencies and programs is to keep the workload at the upper levels (i.e. President and Congress) of the budget review within some

reasonable bounds. Agencies and programs could be scheduled for review in such a way that the workload is equal in each year of the cycle.

This suggestion of accomplishing a complete zero-base review of each program or agency over an extended period of time is not meant to imply that cost reductions should not be considered during the interim years. During the interim years between ZBB reviews, agencies could be required to submit a current level budget as well as alternative levels (much as Air Force now does with the PDM and POM). If a need arises, a minimum level decision package could be specifically requested. The idea of preparing a minimum level decision package every year is impractical. It should be prepared only when there is some intention to use it. It should also be noted that a total reevaluation of particular programs/activities could be conducted on a selective basis whenever deemed necessary.

#### Formal Ranking of Selected Decision Packages

The formal ranking of all decision packages should not be required. Although a single ranking of all decision packages within the federal government would theoretically identify the best allocation of resources, ranking and judging the high volume of dissimilar decision packages poses a difficult, if not impossible, burden. A more realistic compromise would be to require the formal ranking of only those decision packages that fall in close proximity to the probably "cut-off line" (i.e., the expected funding level).

Decision makers would be able to save time by not having to concentrate on packages that are considered as "high priority" or "required." There is little value in knowing whether item 20 or 21 is really a higher priority, when the first 100 are going to be funded for sure.

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Rather, it is essential to ensure that those packages which fall just above or just below the probable cut-off line are properly ranked. It should be noted that this is a technique recommended by both Pyhrr (Ref 42:9-10) and Taylor (Ref 53).

In practice, there can be little value to one super, rank-ordered list for the entire federal government. Even Peter Pyhrr admits that in a political environment major shifts in resource allocations between major departments or agencies cannot be expected. On the contrary, major reallocations of resources can better be expected to take place within the departments or agencies. For example, administrative and maintenance cost savings would most likely be shifted into direct program delivery. It is unrealistic to expect a decrease in the Department of Agriculture to fund an increase in the DOD. The rank-ordered list will have value only within major departments and to force it at higher levels will only waste time and effort (Ref 37:7-8).

#### Sunset Laws

It should be noted that adoption of both of these recommendations would make the preparation of the President's budget more in accordance with the requirements of Senator Muskie's proposal to combine ZBB with sunset laws. In this way legislative support could be won for a budget system compatible to the budget processes of both the executive and legislative branches of the federal government.

Zero-base budgeting, as currently being implemented in the executive branch of the federal government, ignores the authorization process that precedes the appropriation of all funds. Senator Muskie's bill (S.2925), on the other hand, adds increased emphasis to the authorization process. This bill, the Government Economy and Spending Reform Act of 1976,

eliminates the need for annual reevaluation of all programs by calling for the automatic termination of the authorization for almost all agencies and programs every fifth year. Thus, no funds could be appropriated for these agencies and programs until the Congress specifically acts to reauthorize them. As mentioned in Chapter II, the authorization process is the birth and rebirth stages of a substantial portion of the federal budget, so it only seems logical that this is where ineffective or duplicative programs or agencies should be killed. As presently being implemented, ZBB will waste a lot of time and effort allowing expense items to reach the appropriations phase when they should have been eliminated much earlier in the authorization phase.

This bill also eliminates the need for rank-ordering all elements of the federal budget. This bill schedules termination dates by major budget functional or subfunctional categories. Since all programs and agencies will not expire at the same time, it seems only necessary to rank-order those that are in the same functional or subfunctional categories, such as national defense.

### Epilogue

A number of benefits are being claimed for ZBB in the federal government, but even its advocates admit that ZBB is not without problems in both the implementation and operation phases. Zero-base budgeting, as it is currently being implemented, may prove unworkable and less than beneficial. Zero-base budgeting may work well in an organization that is much smaller than the federal government and devoid of political considerations. The size of the federal government and its inherent political nature may, however, limit the success of ZBB.

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APPENDIX A

ZBB Definitions

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### ZBB Definitions

The following definitions are integral to the zero-base budgeting process:

- (1) Decision unit. The basic program or organizational entity for which budget requests are prepared and for which its manager makes significant decisions on the amount of spending and the scope or quality of work to be performed.
- (2) Decision package. A brief justification document that includes the information necessary to make judgments on program or activity levels and resource requirements. A series of decision packages (decision package set) is prepared for each decision unit and cumulatively represents the total budget requests for that unit.

Consolidated decision packages may be prepared to summarize and supplement information contained in individual packages. These consolidated packages are based on the priorities of management officials at a higher level than those who prepare decision packages and may reflect priorities, including the addition of new programs or the abolition of existing ones, that differ from the more detailed individual packages.

- (3) Ranking. The process by which managers array levels shown in decision packages in decreasing order of priority. Ranking identifies the relative priority assigned to each decision package increment contained in the agency's budget request.
- (4) Minimum level. The program, activity, or funding level below which it is not feasible to continue operating because no constructive contribution can be made toward fulfilling its objectives. The minimum level may not be a fully acceptable level from the agency's perspective and may not permit complete achievement of the stated objectives of the decision unit.
- (5) Current Level. The level that would be reflected in the budget if 19BY activities were carried on at 19CY service or other output levels without major policy changes. This permits internal realignments of activities within existing statutory authorization.

This section is quoted from OMB Circular No. A-11.



APPENDIX B

OMB Bulletin No. 77-9



EXECUTIVE OFFICE OF THE PRESIDENT  
OFFICE OF MANAGEMENT AND BUDGET  
WASHINGTON, D.C. 20503

Bulletin No. 77-9

April 19, 1977

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Zero-Base Budgeting

1. Purpose. The President, in a memorandum of February 14, 1977 (Attachment), asked each agency head to develop a zero-base budgeting system to be used in the preparation of the 1979 Budget. In accordance with the President's direction, these instructions provide guidance on the use of zero-base budgeting techniques for the preparation and justification of 1979 budget requests within each agency. Separate instructions will be issued in OMB Circular No. A-11 to advise agencies of budget materials to be submitted to OMB. The instructions in this Bulletin lay the foundation for agency budget submissions in September in accordance with Circular No. A-11.

2. Coverage. These instructions apply to all agencies in the executive branch whose budgets are subject to Presidential review (see OMB Circular No. A-11, section 11.1). These concepts and guidelines are a framework within which each agency should develop necessary procedures to meet its individual requirements. Agencies should insure that the fundamental characteristics of zero-base budgeting are retained. Agencies excluded from the coverage of this bulletin are encouraged to develop zero-base budgeting procedures.

3. Definition of terms.

a. Decision unit. The program or organizational entity for which budgets are prepared and for which a manager makes significant decisions on the amount of spending and the scope or quality of work to be performed.

b. Decision package. A brief justification document that includes the information necessary for managers to make judgments on program or activity levels and resource requirements. A series of decision packages (a decision package set) is prepared for each decision unit and

cumulatively represents the total budget request for that unit.

c. Consolidated decision packages. Packages prepared at higher management levels that summarize and supplement information contained in decision packages received from lower level units. Consolidated packages may reflect different priorities, including the addition of new programs or the abolition of existing ones.

d. Ranking. The process by which managers array program or activity levels (as shown in decision packages) in decreasing order of priority. This ranking process identifies the relative priority assigned to each decision package increment contained in the manager's budget request based on the benefits to be gained at and the consequences of various spending levels.

e. Minimum level. The program, activity, or funding level below which it is not feasible to continue the program, activity, or entity because no constructive contribution can be made toward fulfilling its objective. The minimum level:

- may not be a fully acceptable level from the program manager's perspective; and

- may not completely achieve the desired objectives of the decision unit.

f. Current level. The level that would be reflected in the budget if fiscal year 1978 activities were carried on at 1978 service or other output levels without major policy changes. A concept, not unlike current services, that nevertheless permits internal realignments of activities within existing statutory authorization. Estimates of personnel compensation and other objects of expenditure will be made in accordance with OMB Circular No. A-11.

4. The zero-base budgeting concept. Zero-base budgeting is a management process that provides for systematic consideration of all programs and activities in conjunction with the formulation of budget requests and program planning.

The principal objectives of zero-base budgeting are to:

- involve managers at all levels in the budget process;

- justify the resource requirements for existing activities as well as for new activities;

- focus the justification on the evaluation of discrete programs or activities of each decision unit;

- establish, for all managerial levels in an agency, objectives against which accomplishments can be identified and measured;

- assess alternative methods of accomplishing objectives;

- analyze the probable effects of different budget amounts or performance levels on the achievement of objectives; and

- provide a credible rationale for reallocating resources, especially from old activities to new activities.

To accomplish these objectives zero-base budgeting requires these decision-makers to:

- use "decision packages" as the major tool for budgetary review, analysis, and decisionmaking; and

- rank program or activity levels in order of priority.

5. Benefits anticipated in the Federal Government. This new system can provide significant benefits at all levels throughout the Federal Government. These benefits include:

- focusing the budget process on a comprehensive analysis of objectives, and the development of plans to accomplish those objectives;

- providing better coordination of program and activity planning, evaluation, and budgeting;

- expanding lower level management participation in program and activity planning, evaluation, and budgeting;

- causing managers at all levels to evaluate in detail the cost effectiveness of their operations and specific activities--both new and old-- all of which are clearly identified;



-- requiring that alternative ways to meet objectives are identified;

-- identifying trade-offs between and within programs; and

-- providing managers at all levels with better information on the relative priority associated with budget requests and decisions.

Many agency management processes are aimed at providing some if not all of these same benefits. In many instances, however, such processes do not operate agencywide and the information relevant to the processes is not gathered, analyzed and reviewed in a systematic manner for all programs and activities. The value of zero-base budgeting is that it provides a process requiring systematic evaluation of the total budget request and all program objectives.

6. The zero-base budgeting process. Agencies should develop their internal zero-base budgeting procedures within the following framework.

a. Identification of objectives. An important early step in zero-base budgeting is the identification of objectives for all managers preparing and reviewing decision packages.

Top level agency management should be involved in setting objectives for lower level agency managers to:

(1) help ensure that appropriate guidance is furnished to managers throughout the agency;

(2) aid managers preparing decision packages in defining, explaining, and justifying their work to be performed and the associated resources; and

(3) aid top and intermediate level managers in understanding and evaluating the budget requests.

Program and organization objectives should be explicit statements of intended output, clearly related to the basic need for which the program or organization exists. The task of identifying objectives requires the participation by managers at all levels to determine the ultimate realistic outputs or accomplishments expected from a program or organization (major objectives) and the services or products

to be provided for a given level of funding during the budget year (short-term objectives).

However, lack of precise identification and quantification of such objectives does not preclude the development and implementation of zero-base budgeting procedures.

As objectives are identified, managers should simultaneously determine the key indicators by which performance and results are to be measured. Agencies should specify measures of effectiveness, efficiency, and workload for each decision unit. These measures can often be obtained from existing evaluation and workload measurement systems. If such systems do not exist, or if data are not readily available, desirable performance indicators should not be rejected because of apparent difficulties in measurement. Indirect or proxy indicators should be considered initially, while evaluation and workload systems are developed to provide the necessary data for subsequent budget cycles.

b. Identification of decision units. Another of the first steps in zero-base budgeting is the identification of the entities in the program or organization structure whose managers will prepare the initial decision packages. In all instances, the identification of the decision units should be determined by the information needs of higher level management. Agencies should ensure that the basic decision units selected are not so low in the structure as to result in excessive paperwork and review. On the other hand, the units selected should not be so high as to mask important considerations and prevent meaningful review of the work being performed. In general, the decision unit should be at an organizational or program level at which the manager makes major decisions on the amount of spending and the scope, direction, or quality of work to be performed. A decision unit normally should be included within a single account, be classified in only one budget subfunction, and to the extent possible, reflect existing program and organizational structures that have accounting support.

c. Preparation of decision packages. The decision unit manager performs two types of analyses based on the program and budget guidance received from higher level management. First, the manager examines alternative ways of accomplishing the major objectives. Such alternatives may require legislation and may have been identified and developed as a result of a major reexamination of the program or activity. In other instances the alternatives identified may not be fully developed, but will serve as a

basis for reexamining the program at a later date. In still other instances, the alternatives identified may be the first steps toward more significant changes that will take longer than one year to accomplish. Normally, the best alternative is then selected and used as the basis for the second type of analysis--the identification of different levels of funding, activity, or performance. The purpose of identifying these different levels is to provide information on: (1) where reductions from the total request may be made, (2) the increased benefits that can be achieved through additional or alternative spending plans, and (3) the effect of such additions and reductions. Again, legislation may be required to put into effect some level of funding or performance.

However, nothing in this process should inhibit or prohibit any decisionmaker from submitting, requesting, or reviewing any information needed for analyses and decisionmaking. For example, separate decision package sets may be prepared to examine the impact of different alternatives. Also, packages reflecting increased performance or funding levels may introduce alternative methods of accomplishment that were not feasible at a lower level.

The guidance received from higher level management may determine the specific service, performance, output, or funding levels and the objectives to be discussed. This helps to insure that information provided in the decision package is broken down and arrayed in a manner conducive to higher level review of issues concerning the decision unit and also covering more than one decision unit. However, in all instances the decision package set should include:

- (1) A minimum level. In all instances, the minimum level should be below the current level (unless it is clearly not feasible to operate below the current level); and

- (2) A current level (unless the total requested for the decision unit is below the current level).

The decision package set may also include, when appropriate:

- (1) A level or levels between the minimum and current levels; and

- (2) Any additional increments desired above the current level.



Proposed changes (supplementals, amendments, rescissions) in current year amounts should be shown in packages separate from the packages described above. However, the above packages should include any budget year effect of current year changes. New programs or activities (e.g., those resulting from new legislative authority or a new major objective) will be proposed in a separate decision package set. Proposals for abolition of current programs or activities normally will not be reflected in a decision package set. However, such proposals should be highlighted, as appropriate, in another part of the agency justification.

The decision unit manager prepares a decision package set that includes decision packages reflecting incremental levels of funding and performance, so the cumulative amount of all packages represents the total potential budget request of the decision unit. Each package shows the effect of that funding and performance level on meeting the assigned objectives. The decision packages serve as the primary tool for budgetary review, analysis, and decisionmaking, although additional material may also be made available or requested for review.

Generally, a series of packages should be prepared for all programs and activities where, through legislative or administrative means, there is discretion as to the amount of funds to be spent or the appropriate method or level of activity. This does not mean that where a spending level is mandatory under existing substantive law, only one level will be identified. There are many instances in which the decision on whether to propose legislative changes is made during the preparation of the budget. There are also instances in which changes in regulations or program administration can effect the amount of resources needed to carry out a mandatory program. In these instances, packages should be prepared that analyze the effects of different funding or performance levels or alternative methods of accomplishing the objectives. In any instance where there is clearly no discretion in the amounts of funds to be spent or the appropriate method or level of activity, at least one decision package should be prepared that summarizes the analysis and decisionmaking that resulted in that request. That decision package should support the conclusion that only one funding or activity level can be considered during the budget process.

d. Ranking of decision packages. Completed decision packages should be ranked initially by the decision unit manager. At higher management levels, the rankings of each



subordinate manager are reviewed and formed into a consolidated ranking. This consolidation process is illustrated in Exhibit 1. The ranking shows the relative priority that discrete increments of services or other outputs have in relation to other increments of services or other outputs. The process is explicitly designed to allow higher level managers the opportunity to bring their broader perspectives to bear on program priorities by allowing them to rank the decision packages and make program trade-offs.

Agencies may use whatever review and ranking techniques appropriate to their needs. However, the minimum level for a decision unit is always ranked higher than any increment for the same unit, since it represents the level below which the activities can no longer be conducted effectively. However, the minimum level package for a given decision unit need not be ranked higher than an incremental level of some other decision unit. A minimum level for a decision unit may be ranked so low in comparison to incremental levels of other decision units that the funding level for the agency may exclude that minimum level package. This would signify the loss of funding for that decision unit.

Decision packages or decision package sets may be prepared to examine the effect of alternative ways to meet an objective (see Section 6.c.). In these instances, only those decision packages that are part of the unit's request should be ranked. The other decision packages should accompany the submission, however, so higher review levels may examine the alternatives and have an opportunity to replace the requested packages with those representing an alternative thus far not recommended.

e. Higher level review. In all instances, the use of decision packages and priority rankings are the major tools for analysis, review, and decisionmaking. At each higher management level:

-- decision packages may be revised, deleted, or added;  
and

-- rankings submitted by subordinate managers may be revised.

(2) Consolidation of decision packages. In some small agencies, it may be desirable for each higher management level to review every decision package prepared by each decision unit. In other instances, however, higher

level management's decisionmaking needs may better be met by recasting all or some of the initial decision packages into a lesser number of consolidated decision packages. The consolidated packages would be based upon the more detailed information in the initial packages, but the information would be recast or reinterpreted in a broader frame of reference to focus on significant program alternatives or issues. The objectives may be redefined to reflect the higher level manager's program perspective.

This consolidation process may also be used to reduce what would otherwise be an excessive paperwork and review burden at higher levels. The agency head or his designee should determine at which review level(s) all or some of the packages will be consolidated into a lesser number of packages before submission to the next higher review level (see Exhibit 1). This consolidation should be based on natural groupings of subordinate decision units. Decision units in different budget subfunctions generally should not be consolidated. The consolidated package will summarize the more detailed information contained in the individual packages and identify the subordinate decision units covered.

In all instances a minimum level consolidated decision package will be prepared. This package may or may not include each of the minimum level packages from the decision package sets being consolidated. There will be instances when the preparation of a current level consolidated package is not feasible (e.g., when a decision package for a new program or activity is ranked higher than a current level package). When appropriate, there should also be a level or levels identified between the minimum and current levels.

(2) Type of review. The review can be conducted more effectively at each management level if the type of review is determined beforehand. This is especially important in the mid and higher levels in the agency, where the review workload may be significant, even with consolidation of packages. As a means of increasing the effectiveness of its review, higher level management may decide to limit its review of the higher-ranked packages to that necessary to provide a sound basis for ranking the packages and may choose to examine in more depth only the lower-ranked packages. The lower-ranked packages would be the first to be affected by an increase or decrease in the expected budgetary resources.

7. Preparation of materials. The following materials should be prepared for each decision unit.

a. Decision unit overview. The overview provides information necessary to evaluate and make decisions on each of the decision packages, without the need to repeat that information in each package. It should be at most two pages long, prepared in the format of Exhibit 2, and contain the following information:

(1) Identifying information. Include sufficient information to identify the decision unit, and the organizational and budget structure within which that decision unit is located. Each package should include the title of the appropriation account that finances the decision unit, the account justification code (see OMB Circular No. A-11, section 21.3), and any internal agency code necessary.

(2) Long-range goal. When appropriate, identify the long-range goal of the decision unit. Goals should be directed toward general needs, to serve as the basis for determining the major objective(s) undertaken to work towards that goal.

(3) Major objective(s). Describe the major objectives of the decision unit, the requirements these objectives are intended to satisfy and the basic authorizing legislation. Major objectives normally are of a continuing nature or take relatively long periods to accomplish. Objectives should be measurable and should be those that program managers employ; they should form the basis for first determining and subsequently evaluating the accomplishments of programs or activities.

(4) Alternatives. Describe the feasible alternative ways to accomplish the major objectives. Identify which of the alternatives represents the method proposed for the budget year. Briefly explain how the approach selected contributes to satisfying the major objectives and the rationale for not pursuing other alternatives. This may include a discussion of organizational structure and delivery systems; longer-range cost factors; and when applicable, the unique aspects and need for the program that cannot be filled by State or local governments or the private sector (particularly for any enlarged or new proposed action).



(5) Accomplishments. Describe the progress of the decision unit toward meeting the major objectives. This section should include both quantitative and qualitative measures of results.

b. Decision packages. Each (consolidated) decision package should be no more than two pages long, be prepared in a format similar to Exhibit 3, and contain at least the following information:

(1) Identifying information. This information should include organizational identification (agency, bureau), appropriation or fund account title and identification number, specific identification of the decision unit, the package number, and the internal agency code.

(2) Activity description. Describe the work to be performed or services provided with the incremental resources specified in the package. This section should include a discussion and evaluation of significant accomplishments planned and the results of benefit/cost and other analyses and evaluations that will contribute to the justification of that level.

(3) Resource requirements. Include appropriate information, such as obligations, offsetting collections, budget authority or outlays, and employment (full-time permanent and total), for the past, current, and budget years for the upcoming budget. The increment associated with each package should be listed, along with the cumulative totals for each measure used in that package, plus all higher ranked packages for that decision unit. At an appropriate level in the process, budget authority and outlay amounts for the four years beyond the budget year should also be included, in accordance with criteria in OMB Circular No. A-11.

(4) Short-term objective. State the short-term objectives (usually achievable within one year), that will be accomplished and the benefits that will result with the increment specified and the cumulative resources shown in the package. The expected results of the work performed or services provided should be identified to the maximum extent possible through the use of quantitative measures.



(5) Impact on major objective(s). Describe the impact on the major objective(s) or goals of both the incremental and the cumulative resources shown in the package.

(6) Other information. Include other information that aids in evaluating the decision package. This should include:

- explanations of any legislation needed in connection with the package;

- the impact or consequences of not approving the package;

- for the minimum level package, the effects of zero-funding for the decision unit;

- for packages below the current level, an explanation of what now is being accomplished that will not be accomplished at the lower level; and

- the relationship of the decision unit to other decision units, including the coordination that is required.

c. Ranking sheet. Each review level will prepare a ranking sheet to submit to the next higher review level. This ranking sheet should generally contain the information shown in Exhibit 4 for the budget year.

In instances (e.g., revolving funds) where budget authority and net outlays are not a factor in reflecting the appropriate or priority level of performance, managers should use other measures (e.g. total obligations, employment).

8. OMB review and consultation. As an important element of initiating zero-base budgeting, agencies are required this year to submit for OMB and Presidential review their proposals for:

- the program, activity, or organizational level to be the basis of the (consolidated) decision packages that will form the agency budget submission to OMB;

- current and/or budget year issues that should be highlighted through either particular decision packages or, when decision packages are not appropriate, through issue

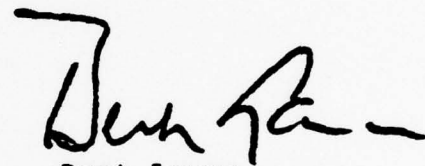
papers that ultimately tie in to one or several decision packages; and

-- longer-range issues for which agencies will initiate extensive evaluations.

This identification of issues will play an integral role in OMB's spring review of agency programs, activities, and plans. Policy guidance letters to the agencies regarding the preparation of the fall budget submission will be based in part on this information.

OMB representatives will contact the agencies shortly and request these proposals.

9. Inquiries. Should additional discussion be necessary, agencies should contact their OMB budget examiner.



Bert Lance  
Director

Attachment

THE WHITE HOUSE  
WASHINGTON

February 14, 1977

MEMORANDUM FOR THE HEADS OF  
EXECUTIVE DEPARTMENTS AND AGENCIES

During the campaign, I pledged that immediately after the inauguration I would issue an order establishing zero-base budgeting throughout the Federal Government. This pledge was made because of the success of the zero-base budget system adopted by the State of Georgia under my direction as Governor.

A zero-base budgeting system permits a detailed analysis and justification of budget requests by an evaluation of the importance of each operation performed.

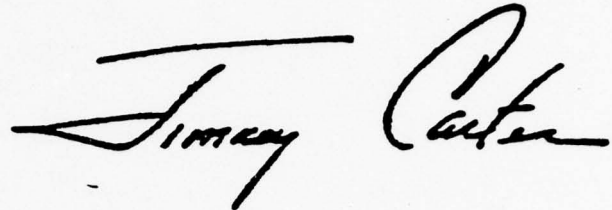
An effective zero-base budgeting system will benefit the Federal Government in several ways. It will

- . Focus the budget process on a comprehensive analysis of objectives and needs.
- . Combine planning and budgeting into a single process.
- . Cause managers to evaluate in detail the cost-effectiveness of their operations.
- . Expand management participation in planning and budgeting at all levels of the Federal Government.

The Director of the Office of Management and Budget will review the Federal budget process for the preparation, analysis, and justification of budget estimates and will revise those procedures to incorporate the appropriate techniques of the zero-base budgeting system. He will develop a plan for applying the zero-base budgeting concept to preparation, analysis, and justifications of the budget estimates of each department and agency of the Executive Branch.

I ask each of you to develop a zero-base system within your agency in accordance with instructions to be issued by the Office of Management and Budget. The Fiscal Year 1979 budget will be prepared using this system.

By working together under a zero-base budgeting system, we can reduce costs and make the Federal Government more efficient and effective.

A handwritten signature in cursive script, reading "Jimmy Carter". The signature is written in dark ink and is positioned to the right of the typed text.



# DECISION PACKAGE RANKING AND CONSOLIDATION PROCESS ILLUSTRATED

**EXHIBIT 1**  
**BULLETIN NO. 77-9**

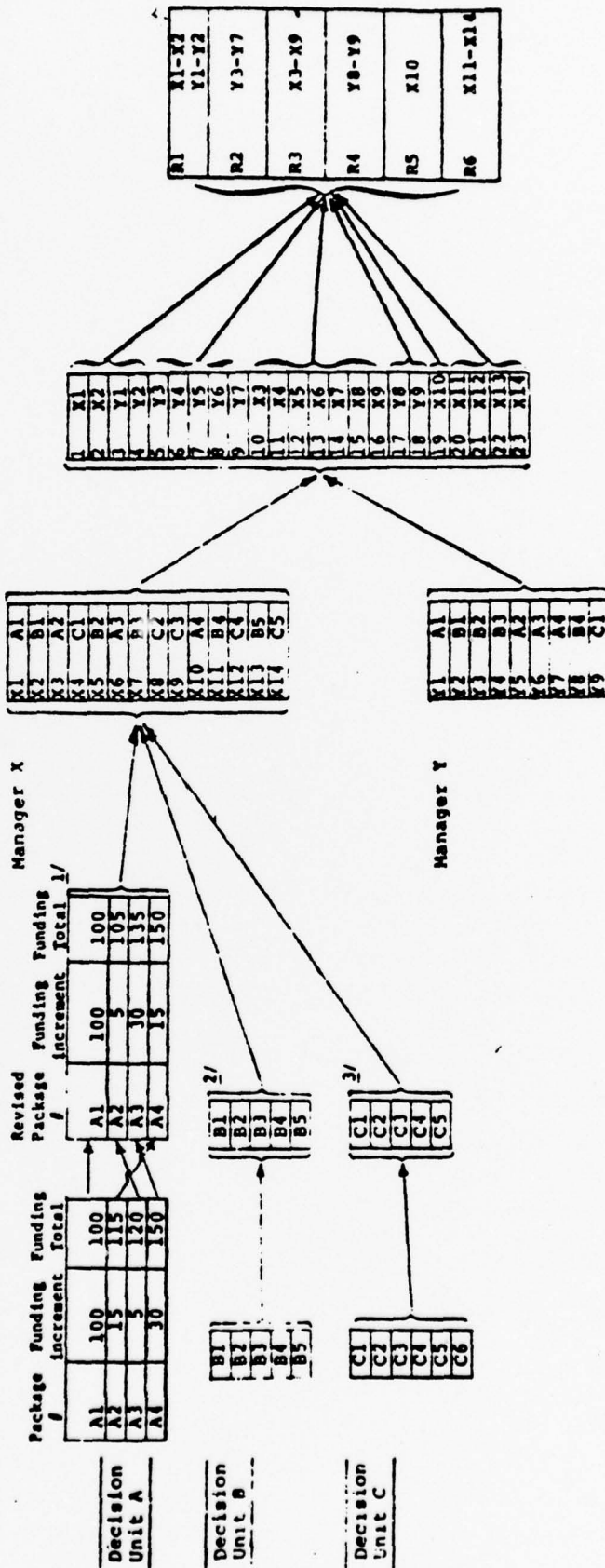
Manager 2 prepares some consolidated decision packages before submitting budget request to next higher level.

Manager R evaluates packages from Managers X and Y, and then ranks them against each other.

Manager X ranks packages for units A, B, and C against each other, and sends to Manager Y

Manager X receives performance information and evaluates and ranks them within each unit.

Managers A, B, and C each sent packages for their units and send to Manager X



11/ Higher level manager reorders the proposed priorities of the subordinate decision unit managers. The packages may be revised by either the initial decision unit manager or the higher level manager.

2. Higher level manager accepts proposed priorities of the subordinate manager.

3/ Higher level manager accepts proposed priorities of the subordinate manager, but chooses not to propose funding of lowest priority package.

DECISION UNIT OVERVIEW  
Department of Health, Education, and Welfare  
Mental Health Administration  
Federal Support of Community Mental Health Services  
Mental Health: 75-0001-0-1-550

Goal.

To ensure needy citizens access to community based mental health services, regardless of ability to pay. Services should be of high quality, provided in the least restrictive environment, and in a manner assuring patients' rights and dignity.

Major objective.

To assist in the establishment and operation of a nationwide network of 1,200 qualified community mental health centers (CMHC's) by 1984 to ensure availability and accessibility of services to residents of each mental health catchment area.

Current method of accomplishing the major objectives.

Grants are made to public and nonprofit entities to plan and operate community mental health center programs. The planning grants are one-time grants, not to exceed \$75,000 each. The operating grants are for eight-year periods with a declining Federal matching rate.

Alternatives.

1. Consolidate Federal funding for community mental health services and other categorical health service programs into a single formula grant to the States.
2. Consolidate Federal funding for community mental health services and other community-based inpatient and outpatient services--as well as institutionally based short-term acute and long-term care services--for the mentally ill and mentally retarded.

These alternatives are not being pursued because the States thus far have not been able to ensure that funds will be targeted into high priority areas. The Secretary believes the Federal Government must have the ability to control the funding.

3. Provide for mental health services coverage through the national health insurance proposal. This alternative is not presently viable because passage of the national health insurance act is not near. Intensive study is now being directed toward this alternative for possible consideration next year.

#### Accomplishments.

Since the establishment of the CMHC program in the mid-1960's, 670 CMHC's have received Federal funding of nearly \$2.0 billion. In 1977, nearly 600 centers were operational, covering 45% of the population (90 million people), and providing treatment services to 2 million individuals annually.

In 1977, 450 centers received Federal grant support and 100 centers completed the eight-year Federal grant cycle. To qualify for an operational grant, P.L. 100-63, requires centers to provide the following services on a 24 hour a day, seven day a week basis:

1. Inpatient hospitalization;
2. Outpatient treatment and counseling;
3. Partial hospitalization as an alternative to full-time hospitalization;
4. 24-hour emergency services by telephone or on a walk-in basis;
5. Consultation and education services;
6. Services to children;
7. Services to the elderly;
8. Screening services to the courts and other agencies;
9. Follow-up care for former full-time patients from a mental health facility;
10. Transitional services for same;
11. Alcoholism and alcohol abuse program and drug addiction and abuse program.

Package 1 of 4 (minimum level)

DECISION PACKAGE  
Department of Health, Education and Welfare  
Mental Health Administration  
Federal Support of Community Mental Health Serv. as  
Mental Health: 5-0001-0-1-550

Activity Description:

Continue grants only to the 436 CMHC's currently receiving Federal support, until each CMHC's eight-year grant cycle is completed.

Resource Requirements: Dollars (in thousands)

	1977	1978	1979	Cumulative
			This Package	Total
Planning grants (\$)	1,000	1,000	0	0
Operating grants (\$)	97,000	147,000	120,000	120,000
Total obligations	98,000	148,000	120,000	120,000
Budget authority	98,000	148,000	120,000	120,000
Outlays	97,000	145,000	119,000	119,000
Five-year estimates	1979	1980	1981	1982
Budget authority	120,000	100,000	80,000	60,000
Outlays	119,000	98,000	79,000	59,000
				1983
				40,000
				40,000

Short-term objective:

To ensure in 1979 access to qualified comprehensive mental health services to 45% of the population (this results in treatment of about 2 million patients).

Impact on major objectives:

The major objective of 1200 qualified CMHC's by 1980 would not be met if this short term objective were continued. It is unlikely that any net increase in qualified CMHC's would result at this level because few communities have the resources to develop a qualified program. It is estimated that for each community that would develop a qualified CMHC, an existing qualified CMHC would cease to qualify because of cutbacks in service provided due to tight funds. The impact of continuing this level objective follows:



	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Number of public and non-profit CMHC's	700	710	720	730	740	750	760	770
Number of CMHC's providing comprehensive services, as now defined	550	600	600	600	600	600	600	600
Number of CMHC's receiving grants	400	450	400	350	300	250	200	150
Percent of population covered	43	45	45	45	45	45	45	45
Percent of probable patients covered	45	50	50	50	50	50	50	50

Other Information:

Continuing grants to the 450 CMHC's currently receiving Federal support until each CMHC's eight-year cycle is completed is the minimum level because (a) the government has an eight-year contract with each CMHC, and (b) no new CMHC's will receive any grants. If zero-funded, the government would be subject to legal action brought by CMHC's.

This level would cease to encourage communities to develop CMHC's because of the (a) lack of planning grant funds and (b) lack of operational grant funds, thus negating the potential growth in the number of qualified CMHC's.

Only 570 of the high priority catchment areas would receive qualified CMHC coverage.

Package 2 of 4

**DECISION PACKAGE**  
Department of Health, Education, and Welfare  
Mental Health Administration  
Federal Support of Community Mental Health Services  
Mental Health: 75-0001-0-1-550

**Activity Description**

Continue grants to a total of 450 C.vntly funded CMHC reaches the end of its eight-year cycle for eligibility, provide an eight-year grant to a newly qualified CMHC.

**Resource Requirements: Dollars in thousands.**

	1977	1978	1979	This Package	Cumulative Total
Planning grants (\$)	1,000	1,000	0	0	0
Operating grants (\$)	97,000	147,000	20,000	20,000	140,000
Total obligations	98,000	148,000	20,000	20,000	140,000
Budget authority	98,000	000	20,000	20,000	140,000
Outlays	97,000	145,000	19,000	19,000	138,000
Five year estimates	140,000	142,000	143,000	143,000	146,000
Budget authority	138,000	141,000	142,000	142,000	145,000
Outlays					

**Short-term objective.**

To ensure in 1979 access to qualified comprehensive mental health services to 498 of the population (this results in treatment of about 2.1 million patients).

**Impact on major objectives.**

Even without the planning grants, many communities will be encouraged to develop CMHCs because of the possibility of receiving the operating grants. However, the major objective would not be met at this level of funding. It would take until about 1990 to establish 1200 qualified CMHCs. The impact of continuing this level follows:

	<u>1977</u>	<u>1978</u>	<u>This package</u>	<u>1979 cumulative</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Number of public and nonprofit CMHCs	700	710	40	750	800	850	900	950	1,000
Number of CMHCs providing comprehensive services, as now defined	550	600	50	650	700	750	800	850	900
Number of CMHCs re- ceiving grants	400	450	50	450	450	450	450	450	450
Percent of population covered	43	45	4	49	58	65	75	80	85
Percent of probable patients covered	45	50	4	54	64	69	80	84	88

Other information.

By 1982, 70% of the high priority catchment areas will have a qualified CMHC. Assuming the objective of CMHCs is desirable even by 1990, stretching out the program past the major objective date of 1984 will increase total program costs from \$3.6 billion to \$4.3 billion due to estimated increases in service costs.

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Package 3 of 4 (Current level)

DECISION PACKAGE  
Department of Health, Education, and Welfare  
Mental Health Administration  
Federal Support of Community Mental Health Services  
Mental Health: 75-0001-0-1-550

Activity Description:

Fund 508 more newly qualifying CMHC's. That is, for every two CMHC's whose eight-year eligibility period ends, fund three newly qualifying CMHC's.

Resource Requirements: (Dollars in thousands)

	1977	1978	1979	This Package	Cumulative Total
Planning grants (\$)	1,000	1,000	0	0	0
Operating grants (\$)	97,000	147,000	10,000	10,000	150,000
Total obligations	98,000	148,000	10,000	10,000	150,000
Budget authority	98,000	148,000	10,000	10,000	150,000
Outlays	97,000	145,000	10,000	10,000	148,000
Five year estimates	1979	1980	1981	1982	1983
Budget authority	150,000	162,000	172,000	183,000	194,000
Outlays	148,000	161,000	171,000	182,000	193,000

Short-term Objective:

To ensure in 1979 access to qualified comprehensive mental health services to 51% of the population (this results in treatment of about 2.2 million patients).

Impact on Major Objectives:

	1977	1978	this Pkg.	1979 Cum.	1980	1981	1982	1983	1984
Number of public and non-profit CMHC's	700	710	25	775	850	925	1,000	1,075	1,150
Number of CMHC's providing comprehensive services, as now defined	550	600	25	675	750	825	900	975	1,050
Number of CMHC's receiving grants	400	450	25	475	500	525	550	575	600
Percent of population covered	43	45	6	51	65	75	80	85	90
Percent of probable patients covered	45	50	6	56	66	77	83	87	90

Other information:

By 1982 95% of the high priority catchment areas will have a qualified CMHC. If stretched out from 1984 to 1986, total program costs for establishing 1200 CMHC's will increase from \$3.6 billion to about \$3.8 billion.



Package 4 of 4

DECISION PACKAGE  
Department of Health, Education, and Welfare  
Mental Health Administration  
Federal Support of Community Mental Health Services  
Mental Health: 75-0001-0-1-550

Activity Description:

For every CHMC whose eight year eligibility periods ends, fund two newly qualifying CHMC's.

Resource Requirements: Dollars in thousands

	1977	1978	1979	This Package	Cumulative Total
Planning grants (\$)	1,000	1,000		0	0
Operating grants (\$)	97,000	147,000		10,000	160,000
Total obligations	98,000	148,000		10,000	160,000
Budget authority	28,000	148,000		10,000	160,000
Outlays	97,000	145,000		10,000	158,000
Five year estimates					
Budget authority	1979	1980	1981	1982	1983
Outlays	160,000	172,000	183,000	193,000	204,000
	158,000	170,000	182,000	192,000	203,000

Short-term Objectives

To ensure in 1979 access to qualified comprehensive mental health services to 530 of the population (this results in treatment of about 2.3 million patients).

Impact on Major Objectives

	1977	1978	this Pkg.	1979 cum.	1980	1981	1982	1983	1984
Number of public and non-profit CHMC's	700	710	25	800	900	1,000	1,100	1,200	1,300
Number of CHMC's providing comprehensive services, as now defined	550	600	25	700	800	900	1,000	1,100	1,200
Number of CHMC's receiving grants	400	450	25	500	550	600	650	700	750
Percent of population covered	43	45	2	53	75	80	84	93	100
Percent of probable patients covered	45	50	2	58	77	82	85	93	100

The major objective will be met at this level of funding.

Other Information

By 1982 100% of the high priority catchment areas will have a qualified CHMC. Total program cost by 1984 will be \$1.6 billion.

BULLETIN NO. 77-9  
EXHIBIT 4

RANKING SHEET

Department of Government  
Fiscal year 1979

(Other identifying information)

Date: July 17, 1977

Rank	Decision Package	BA	Outlays	Cumulative	
				BA	Outlays
1	A1	924	901	924	901
2	B1	800	785	1,724	1,686
3	A2	121	121	1,845	1,807
4	C1	0	0	1,845	1,807
5	B2	30	30	1,875	1,837
6	A3	0	0	1,875	1,837
7	B3	30	30	1,905	1,867
8	C2	0	0	1,905	1,867
9	C3	0	0	1,905	1,867
10	A4	22	22	1,927	1,889
11	B4	11	11	1,938	1,900
12	C4	0	0	1,938	1,900
13	B5	30	30	1,968	1,930
14	C5	0	0	1,968	1,930
15	C6	0	0	1,968	1,930

## APPENDIX C\*

### Tentative DOD Decision Units

\*This appendix includes enclosures Number I and III from a letter, dated 6 June 1977, written by Assistant Secretary of Defense Fred P. Wacker. Excluded are enclosures II, Specific Instructions, and IV, Definitions.

## APPENDIX C

### Tentative DOD Decision Units

#### A. Active force operations, military departments

- |   |   |
|---|---|
| 1. Strategic forces   | 13. Central supply activities (Army, Navy)    |
| 2. Land forces (Army, Marine Corps)                               | 14. Logistic support activities (Army, Navy)  |
| 3. Naval forces (Navy, Marine Corps)                              | 15. Aircraft maintenance                      |
| 4. Tactical air forces (Navy, Marine Corps, Air Force)            | 16. Combat vehicle maintenance (Army)         |
| 5. Airlift and sealift forces                                     | 17. Weapons and ordnance maintenance (Army)   |
| 6. Consolidated Cryptologic Program                               | 18. Electronic equipment maintenance (Army)   |
| 7. General Defense Intelligence Program                           | 19. Ship maintenance (Navy)                   |
| 8. Special activities (Navy)                                      | 20. Other equipment maintenance               |
| 9. Communications   | 21. Training and education                    |
| 10. Technical support activities                                  | 22. Medical                                   |
| 11. Base operations (except intelligence program)                 | 23. Perm. chg. of sta. (including transients) |
| 12. Central supply and logistic support (Air Force, Marine Corps) | 24. Recruiting and personnel support          |
|   | 25. Administration                            |
|   | 26. Support to other nations                  |

#### B. Active force military personnel appropriations

1. Direct pay
2. Special, incentive and miscellaneous pays
3. Gain/loss related
4. Assignment related

#### C. Reserve and Guard force operations

- |   |  |
|---|--|
| 1. Inactive duty training                           | 6. O&M, Army National Guard, ex base operations        |
| 2. Additional training                              | 7. O&M, Army Reserve, ex base operations               |
| 3. Administrative support                           | 8. O&M, reserve forces (Navy, Marine Corps, Air Force) |
| 4. Active personnel in support of guard and reserve | 9. O&M, Air National Guard                             |
| 5. Base operations, Army National Guard and Reserve |  |

#### D. Military retired pay

1. Retired pay, defense



**E. Operations, Defense Agencies**

- |   |  |
|---|--|
| 1. Defense Investigative Service              | 10. Defense Logistics Agency - All other                 |
| 2. Defense Mapping Agency                     | 11. Office of Information for the Armed Forces           |
| 3. Defense Nuclear Agency - Intelligence      | 12. Uniformed Services University of the Health Sciences |
| 4. Defense Nuclear Agency - Other             | 13. CHAMPUS  |
| 5. Defense Communications Agency              | 14. Dependents Education                                 |
| 6. Defense Intelligence Agency                | 15. TRIMIS   |
| 7. National Security Agency - Intelligence    | 16. Office, Secretary of Defense                         |
| 8. National Security Agency - All other       | 17. Organization, Joint Chiefs of Staff                  |
| 9. Defense Logistics Agency - Base Operations | 18. Defense Contract Audit Agency                        |
|   | 19. Defense Audit Service                                |

**F. Other operation and maintenance appropriations**

- |   |                           |
|---|---------------------------|
| 1. National Board for the Promotion of Rifle Practice | 3. Claims, Defense        |
| 2. Court of Military Appeals                          | 4. Contingencies, Defense |

**G. Procurement appropriations\***

1. Combat aircraft (Aircraft proc., Army)
2. Aircraft modifications, support equipment and facilities (Aircraft proc., Army)
3. Initial spares (Aircraft procurement, Army)
4. Aircraft simulators (Aircraft procurement, Army)
5. ROLAND missile system (Missile procurement, Army)
6. Other Army missiles (Missile procurement, Army)
7. Procurement of weapons and tracked combat vehicles, Army)
8. Ammunition (Procurement of Ammunition, Army)
9. Production base support (Procurement of Ammunition, Army)
10. Army tactical and support vehicles (Other procurement, Army)
11. Army other support equipment (Other procurement, Army)
12. Telecommunications equipment (Other procurement, Army)
13. Other communications and electronics equipment (Other procurement, Army)
14. Replenishment spares, Army (All Army procurement appropriations)
15. F-18 (Aircraft procurement, Navy)
16. CH-53 Helicopter (Aircraft procurement, Navy)
17. Combat aircraft (Aircraft procurement, Navy)
18. Other aircraft (Aircraft procurement, Navy)
19. Aircraft modifications (Aircraft procurement, Navy)
20. Aircraft support equipment and initial spares (Aircraft procurement, Navy)
21. Fleet Ballistic Missile Program (Weapons procurement, Navy)
22. Tomahawk (Weapons procurement, Navy)
23. Other missiles (Weapons procurement, Navy)
24. Fleet Satellite Communications Program (Weapons procurement, Navy)
25. Torpedoes and related equipment (Weapons procurement, Navy)

26. Other weapons (Weapons procurement, Navy)
27. TRIDENT (Shipbuilding and conversion, Navy)
28. Nuclear attack submarines (Shipbuilding and conversion, Navy)
29. CV SLEP/Aircraft carriers (Shipbuilding and conversion, Navy)
30. DDG-2 Modernization (Shipbuilding and conversion, Navy)
31. Anti-air warfare ships (Shipbuilding and conversion, Navy)
32. Amphibious ships (Shipbuilding and conversion, Navy)
33. Patrol ships (Shipbuilding and conversion, Navy)
34. Cost growth/escalation (Shipbuilding and conversion, Navy)
35. Auxiliaries and craft (Shipbuilding and conversion, Navy)
36. Fleet Ballistic Missile Program (Other procurement, Navy)
37. Personnel and command support equipment (Other procurement, Navy)
38. Aircraft and other support equipment (Other procurement, Navy)
39. Air-launched ordnance (Other procurement, Navy)
40. Telecommunications equipment (Other procurement, Navy)
41. Other communications and electronics equipment (Other procurement, Navy)
42. Ships support equipment (Other procurement, Navy)
43. Ordnance support equipment (Other procurement, Navy)
44. Civil engineering support equipment (Other procurement, Navy)
45. Support vehicles, engineer and other support equipment (Procurement, Marine Corps)
46. Weapons and tracked combat vehicles (Procurement, Marine Corps)
47. Ammunition (Procurement, Marine Corps)
48. Telecommunications equipment (Procurement, Marine Corps)
49. Other communications and electronics equipment (Procurement, Marine Corps)
50. Marine Corps missiles (Procurement, Marine Corps)
51. Replenishment spares, Navy (All Navy procurement appropriations)
52. B-1 Bomber (Aircraft procurement, Air Force)
53. Fighter aircraft (F-15, F-16) (Aircraft procurement, Air Force)
54. E-4A advanced airborne command post (Aircraft procurement, Air Force)
55. Other aircraft (E-3A, ATCA, A-10) (Aircraft procurement, Air Force)
56. Follow-on Interceptor (Aircraft procurement, Air Force)
57. Aircraft modifications - strategic (Aircraft procurement, Air Force)
58. Aircraft modifications - other (Aircraft procurement, Air Force)
59. Aircraft initial spares - strategic (Aircraft procurement, Air Force)
60. Aircraft initial spares - other (Aircraft procurement, Air Force)
61. Aircraft simulators (Aircraft procurement, Air Force)
62. Aircraft support equipment and facilities (Aircraft procurement, Air Force)
63. Air-launched cruise missile (Missile procurement, Air Force)
64. Other tactical missiles, missile modifications and related support (Missile procurement, Air Force)
65. Telecommunications Satellite Program (Missile procurement, Air Force)
66. Other satellite programs (Missile procurement, Air Force)
67. MINUTEMAN (Missile procurement, Air Force)
68. SRAM-B (Missile procurement, Air Force)
69. Other missile support (Missile procurement, Air Force)
70. Other base maintenance and support equipment (Other procurement, Air Force)
71. Munitions and associated equipment (Other procurement, Air Force)

72. Telecommunications (Other procurement, Air Force)
73. Other communications and electronics (Other procurement, Air Force)
74. Air Force vehicular equipment (Other procurement, Air Force)
75. Replenishment spares, Air Force (All Air Force procurement appropriations)
76. Defense Communications Agency (Procurement, Defense Agencies)
77. Other Defense Agency procurement (Procurement, Defense Agencies)

#### H. Research, Development, Test and Evaluation

##### R&D technology

- |                                      |                             |
|--------------------------------------|-----------------------------|
| 1. Defense research                  | 4. Engineering technology   |
| 2. Electronics and physical sciences | 5. Other advance technology |
| 3. Environmental and life sciences   | 6. Technology Base Support  |

##### Strategic programs

- |                      |                            |
|----------------------|----------------------------|
| 7. Strategic offense | 9. Strategic control       |
| 8. Strategic defense | 10. Theater nuclear forces |

##### Tactical programs

- |                  |                    |
|------------------|--------------------|
| 11. Land warfare | 13. Sea control    |
| 12. Air warfare  | 14. Combat support |

##### Defense-wide R&D programs

- |                                       |                                 |
|---------------------------------------|---------------------------------|
| 15. Consolidated defense intelligence | 17. Other defense-wide programs |
| 16. Global communications             |                                 |

##### R&D management and support

- |                           |   |
|---------------------------|---|
| 18. Technical integration | 20. International cooperative R&D         |
| 19. Test and evaluation   | 21. Other mgt. support (incl. mil. pers.) |

#### I. Military Construction and Family Housing Construction \*

1. Construction of troop housing facilities
2. Construction of family housing units
3. Construction of community facilities
4. Construction of hospital and medical facilities
5. Construction of operation and training facilities
6. Construction of maintenance and production facilities
7. Construction of research and development facilities
8. Construction of supply facilities
9. Construction of administrative facilities
10. Construction of guard and reserve facilities



11. NATO infrastructure construction
12. Installation of utilities and acquisition of real estate
13. Construction of air pollution abatement projects
14. Construction of water pollution abatement projects
15. Energy conservation investment program
16. Nuclear storage security program
17. Construction planning and design effort
18. Financing of minor construction projects
19. Financing of military construction contingencies
20. Construction of defense agencies facilities

**J. Family Housing - Operations**

- |                                  |   |
|----------------------------------|---|
| 1. Homeowners assistance program | 3. Family housing operation and maintenance |
| 2. Family housing debt payment   | 4. Leasing of family housing units          |

**K. Civil Defense**

1. Defense Civil Preparedness Agency

**L. Special Foreign Currency Program**

1. Special Foreign Currency Program

**M. Industrial Funds**

- |   |   |
|---|---|
| 1. Army industrial fund - DARCOM          | 8. Airlift service (AFIF)   |
| 2. Army industrial fund - MTMC            | 9. Depot maintenance and other activities (AFIF)                  |
| 3. Naval shipyards (NIF)                  | 10. Defense Logistics Agency - clothing factory (DIF)             |
| 4. Naval aircraft rework facilities (NIF) | 11. Defense Communications Agency - communications services (DIF) |
| 5. Military sealift command (NIF)         |   |
| 6. Other Navy industrial fund (NIF)       |   |
| 7. Depot maintenance activities (MCIF)    |   |

**N. Stock Funds**

- |   |                            |
|---|----------------------------|
| 1. War reserves (all DoD stock funds)       | 4. Navy stock fund         |
| 2. Surcharge and cash (all DoD stock funds) | 5. Marine Corps stock fund |
| 3. Army stock fund                          | 6. Air Force stock fund    |
|   | 7. Defense stock fund      |

**O. Military Assistance Program**

1. Advances, foreign military sales, executive (trust fund)
2. Other military assistance programs



P. Civil Functions

1. Cemeterial expenses

Q. Consolidated Defense Intelligence Program

1. Special activities, Air Force (Procurement, RDT&E)
2. National and selected activities (Procurement)
- (3.) Army Consolidated Cryptological Program (Operations)
- (4.) Navy Consolidated Cryptological Program (Operations)
- (5.) Air Force Consolidated Cryptological Program (Operations)
- (6.) National Security Agency Consolidated Cryptological Program (Operations, Procurement, RDT&E)
- (7.) Army General Defense Intelligence Program (Operations, Procurement, RDT&E)
- (8.) Navy General Defense Intelligence Program (Operations, Procurement, RDT&E)
- (9.) Air Force General Defense Intelligence Program (Operations, Procurement, RDT&E)
- (10.) Defense Intelligence Agency General Defense Intelligence Program (Operations, Procurement, RDT&E)
- (11.) Special activities, Navy (Operations, Procurement, RDT&E)

Note. The decision units denoted by parenthetical numbers are also listed under operations, sections A and E.

R. Other decision units

1. Pay raises and other contingencies (Various appropriations)
2. Financing and transfers (Various appropriations)
3. Military personnel appropriation summary (Active military personnel appropriations)
4. Civilian man-year utilization (Operation and maintenance appropriations)
5. Inflation rates (Operation and maintenance appropriations)
6. Average cost of civilian personnel (Operation and maintenance appropriations)
7. Civilian personnel strengths (Operation and maintenance appropriations)
8. Transportation rate adjustments (Operation and maintenance appropriations)
9. Travel (Operation and maintenance appropriations)
10. Emergency and extraordinary expense limitation (Operation and maintenance appropriations)
11. Investment in communications security equipment (Procurement appropriations)

Tables

Number of Decision Units

	<u>Army</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Air Force</u>	<u>Defense Agencies/ Dcf-wide</u>	<u>Total</u>	<u>Integrated Total</u>
Active force operations, military departments	22	21	14	18	-	75	26
Active force military personnel appropriations	4	4	4	4	-	16	4
Reserve and Guard force operations	12	5	5	10	-	32	9
Military retired pay	1	1	-	1	-	3	1
Operations, Defense Agencies	-	-	-	-	19	19	19
Other operation and maintenance appropriations	1	-	-	-	3	4	4
Procurement appropriations	14	31	6	24	2	77	77
RDT&E	17	21	3	19	13	75	21
Military construction/ family housing const.	18	17	-	17	8	60	20
Family housing-operations	3	3	-	3	6	15	4
Civil Defense	-	-	-	-	1	1	1
Special foreign currency program	-	1	-	-	-	1	1
Industrial funds	2	4	1	2	2	11	11
Stock funds	3	3	3	3	3	15	7
Military assistance program	-	-	-	-	2	2	2
Civil functions	1	-	-	-	-	1	1
Consolidated Defense Intelligence Program	2	3	-	4	2	11	11
Other decision units	<u>11</u>	<u>11</u>	<u>9</u>	<u>11</u>	<u>102</u>	<u>144</u>	<u>11</u>
<b>Total:</b>	<b>113</b>	<b>125</b>	<b>45</b>	<b>116</b>	<b>163</b>	<b>562</b>	<b>230</b>

This shows the number of decision units for each component before consolidation and gross and integrated DoD totals. For example, as shown in Section I-A, there are 26 operations decision units; 4 of these (A-3, A-4, A-12 and A-19) do not apply to the Army; the remaining 22 decision units apply to the Army, as shown. The figures can be derived from sections I and II.

Number of Consolidated Decision Units

	<u>Army</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Air Force</u>	<u>Defense Agencies/ Def-wide</u>	<u>Total</u>	<u>Integrated Total</u>
Active force operations, military departments	15	15	6	13	-	49	20
Active force military personnel appropriations	4	4	4	4	-	16	4
Reserve and Guard force operations	12	5	5	10	-	32	9
Military retired pay	1	1	-	1	-	3	1
Operations, Defense Agencies	-	-	-	-	15	15	15
Other operation and main- tenance appropriations	1	-	-	-	3	4	4
Procurement appropriations	14	28	6	21	2	71	71
RDT&E	19	21	3	19	13	75	21
Military construction/ family housing const.	18	17	-	17	8	60	20
Family housing-operations	3	3	-	3	6	15	4
Civil Defense	-	-	-	-	1	1	1
Special foreign currency program	-	1	-	-	-	1	1
Industrial funds	2	4	1	2	2	11	11
Stock funds	3	3	3	3	3	15	7
Military assistance program	-	-	-	-	2	2	2
Civil functions	1	-	-	-	-	1	1
Consolidated Defense Intelligence Program	2	3	-	4	2	11	11
Other decision units	<u>11</u>	<u>11</u>	<u>9</u>	<u>11</u>	<u>102</u>	<u>144</u>	<u>11</u>
<b>Total:</b>	<b>106</b>	<b>116</b>	<b>37</b>	<b>108</b>	<b>159</b>	<b>526</b>	<b>214</b>

This shows the number of decision units for each component after consolidation. For example, the figures for active force operations are shown in Section II A. Figures for the other categories can be derived from the appropriate parts of Section II.

Number of Decision Package Sets

	<u>Army</u>	<u>Navy</u>	<u>Marine Corps</u>	<u>Air Force</u>	<u>Defense Agencies/ Def-wide</u>	<u>Total</u>	<u>Integrated Total</u>
Active force operations, military departments	15	15	6	13	-	49	47
Active force military personnel appropriations	4	4	4	4	-	16	16
Reserve and Guard force operations	5	2	2	4	-	13	13
Military retired pay	1	1	-	1	-	3	1
Operations, Defense Agencies	-	-	-	-	15	15	15
Other operation and maintenance appropriations	1	-	-	-	3	4	4
Procurement appropriations	14	28	6	21	2	71	71
RDT&E *	1	1	-	1	2	5	5
Military construction/family housing const.	18	17	-	17	8	60	20
Family housing-operations	3	3	-	3	6	15	4
Civil Defense	-	-	-	-	1	1	1
Special foreign currency program	-	1	-	-	-	1	1
Industrial funds	2	4	1	2	2	11	11
Stock funds	3	3	3	3	3	15	7
Military assistance program	-	-	-	-	2	2	2
Civil functions	1	-	-	-	-	1	1
Consolidated Defense Intelligence Program	2	3	-	4	2	11	11
Other decision units	<u>11</u>	<u>11</u>	<u>9</u>	<u>11</u>	<u>102</u>	<u>144</u>	<u>14</u>
<b>Total:</b>	<b>81</b>	<b>93</b>	<b>31</b>	<b>84</b>	<b>148</b>	<b>437</b>	<b>244</b>

This shows the number of decision package sets in which each component will be involved, a gross total, and an integrated DoD total. These figures are shown in section II.

\* Consolidated decision package sets



## VITA

Eric Jon Kleiner was born on 26 June 1947 in Detroit, Michigan. He graduated from the United States Air Force Academy in 1969, receiving both a Bachelor of Science degree in Engineering Science and a commission in the USAF. After graduation from Undergraduate Pilot Training in September 1970, he was assigned as a C-141 pilot at McChord Air Force Base, Washington. Then, in 1973 he moved to Griffiss Air Force Base, New York, where he served as a B-52 flight examiner. In June 1976 he entered the School of Engineering of the Air Force Institute of Technology.

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20. ABSTRACT (Continue on reverse side if necessary and identify by block number) The budgeting system currently in use within the Department of Defense has evolved from the Planning-Programming-Budgeting (PPB) System that was first introduced in the early 1960's. In 1965 this PPB system was extended to all federal agencies, but it did not live up to its expectations and as of 1971, it is no longer required throughout the federal government. One of the major drawbacks in many budgeting systems is their primary focus on the increases from year to year in the amounts in various accounting categories, with little systematic regard for program priorities and results. A		

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A relatively new approach to planning and budgeting -- zero-base budgeting -- is intended to overcome this drawback. Basically, zero-base budgeting implies constructing a budget without any reference to what has gone before, based on a fundamental reappraisal of purpose, methods, and resources.

Research has shown that the only real differences between ZBB and DOD's PPB are the annual reevaluation of all programs and the rank-ordering of these programs. Research has further shown that ZBB has little positive to add to the DOD budget process. The impact of ZBB implementation within DOD should prove to be minimal for FY 79, but it may prove to be more significant in succeeding years.

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